Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NS3.50	S Arabia	Rs7.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils.500	Sweden	SKr9.00
Egypt	E£2.25	Lebanon	S.L125.00	Switz	SFr2.20
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rm4.25	Thailand	Bt50
Germany	DM2.20	Mexico	Pes900	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,488 Monday March 14 1988 D 8523 A

US: Computerised game of chicken, Page 17

World News

Avalanche kills 7 at Austrian ski resort

Five Swedish tourists and two Austrians were killed when an avalanche of snow smashed into hotels in the Austrian ski resort of St Anton.

Police said 10 people were buried when the huge wall of snow smashed into a group of 15 hotels and guest houses 500 metres from the town centre early yesterday morning. Four people were rescued alive.

In northern Italy, avalanches killed three people, bringing to six the number of weekend deaths in the region.

Angola peace plan

Angola and Cuba have presented proposals to the US for a southern African peace accord including a timetable for the withdrawal of Cuban troops from the south of Angola. This is conditional on South Africa withdrawing its troops and a halt to US and South African aid to the Angolan rebel movement UNITA.

Spanish protestors hurt

Several people were injured in clashes between Spanish riot police and anti-NATO protesters who marched to a US airbase near Madrid. Police said they fired tear gas and rubber bullets after demonstrators threw stones.

Tehran bombed

Iraq said it had fired a missile at Tehran in retaliation for Iran's shelling of civilian areas in its north-eastern province, in defiance of Friday's war of the cities truce. Iran said civilians were killed in the latest attack. Page 3

S African restrictions

More restrictions were put on South African anti-apartheid groups at the weekend as the Government shaped up for an attack on church leaders. Page 4

Palestinians killed

Two Palestinian guerrillas of Yassir Arafat's al-Fatah group were killed in an Israeli air strike on five military positions near Sidon, Lebanon. In the Gaza Strip, relief workers said 58 Palestinians were treated for wounds after clashes at a health centre in Jabalya on Saturday.

Briton freed in Libya

Engineer James Abra, the last British prisoner held in a Libyan jail, was set free. He had served three years of a life sentence for alleged spying.

30 drown on ferry

Thirty people drowned when a ferry overturned on a reservoir in central India.

Moscow protest

Several hundred Armenians gathered in Moscow's Armenian cemetery demanding action by the authorities to resolve the dispute over the region of Azerbaijan. Page 3

Vienna Jews mourn

Viennese Jews gathered at the site of the city's former Gestapo headquarters to mourn the 50th anniversary of Hitler's takeover of Austria and proclaim they would never again be threatened. Page 2

Vassiliou visit

President Vassiliou of Cyprus arrived in Athens for a five-day official visit marking his foreign policy debut after he was elected last month. Page 3

Pakistan decision

Pakistan Prime Minister Mohammad Khan Junejo said the country would take a final decision today on whether to sign a UN – mediated Afghan peace accord in Geneva.

UK, Russia in TV link

Britons and Russians discussed politics, poetry and lifestyles on Sunday in a live television programme, the first of a series, linking Moscow and London by satellite. An estimated 200m Russian viewers watched the programme.

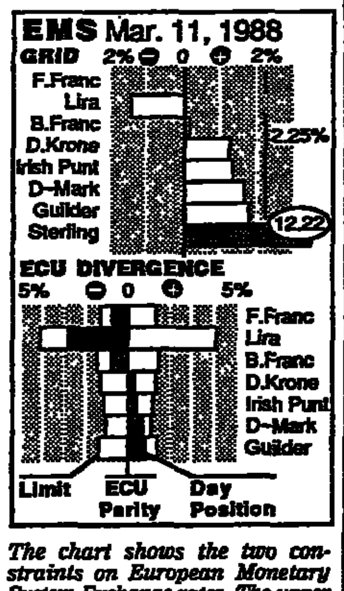
Business Summary

Cocoa talks break up as price falls further

CRISIS TALKS at the International Cocoa Organisation broke up *with no agreement on further* measures to halt the slide in cocoa prices. The price of the benchmark second position futures contract closed in London on Friday at £955 ($1,757) a tonne, the lowest closing level since September 1982 and a fall of £48 since the talks started. Page 22

EUROPEAN Monetary System: A sharp fall in the French franc undermined some of the weaker currencies last week and revived fears of a realignment. A sudden move out of the franc and into D-Marks took most traders by surprise, and the uncertainty was compounded by the absence of any strong response from the Bank of France.

Although currencies were still trading within their divergence limits, the market was clearly unsettled by the lack of a firm response from central banks.



The chart shows the two constraints on European Monetary System Exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

PRESIDENT Ronald Reagan warned that the Omnibus Trade Bill before Congress still contained features that he would feel compelled to veto, but he added that he was "encouraged" by the progress of congressional negotiations on the bill. Page 22

SALZGITTER, West German state-owned engineering group, increased profits to DM65m ($39m) for 1986-87. Page 23

JACOBS SUCHARD, Swiss coffee, food and confectionery maker, reported a sharp increase in 1987 profits and turnover, helped by a string of acquisitions including E.J. Brach of the US and Côte d'Or of Belgium. Page 24

LONG ISLAND Lighting Company is taking a $1.35bn write-down on its investments in three nuclear power stations. Page 24

MICHAEL HERNANDEZ, managing director and head of the public finance department at First Boston, the Wall Street investment bank, has left the firm "to pursue other interests". Page 24

BAT INDUSTRIES, British tobacco-based multinational, said it would "vigorously pursue" its £4.5bn ($8.29bn) offer for Farmers Group despite rejection by the US insurer's board. Page 28

MORGAN STANLEY, US investment bank, announced that Timothy Hultquist will take over in April as head of its London office following Archibald Cox's resignation. Page 24

WARDLEY INVESTMENT Services, investment management arm of Hongkong and Shanghai Banking Group, has become the first UK fund management group to penetrate the Swedish investment market. Page 10

CHINA'S four economic zones had an industrial output of $2.7bn (£1.45bn) and exports of $2bn last year, the People's Daily newspaper said.

Illinois primary crucial to Dole's White House hopes

BY STEWART FLEMING, US EDITOR, IN CHICAGO

SENATOR Robert Dole of Kansas is expected to suspend his presidential election campaign if he *fails convincingly to defeat* Vice-President George Bush in the Republican Party's primary in Illinois tomorrow.

Barring some extraordinary and unanticipated development, such a decision by Mr Dole, tantamount to his withdrawal from the race, would leave the Vice-President with a clear path to the Republican Party's presidential nomination in New Orleans in August.

Following his sweep of the 17 "Super Tuesday" primaries and caucuses last week, Mr Bush now commands the support of an estimated 705 of the 1,139 delegates needed to nominate the Party's presidential candidate in August.

Another 92 delegates are at stake on Tuesday.

Last night, Mr Dole said in a US television interview he would stay in the race even if he loses against Mr Bush in Illinois. His new campaign song would be "On Wisconsin," Mr Dole said, referring to the next presidential primary there on April 5.

But Mr Dole's prospects of salvaging his campaign in Illinois after his dismal showing on Super Tuesday are not rated highly.

Mr Bush, who has the active support of much of the leadership of the Republican party in the State, is looking strong in all sections of the electorate.

A poll by the Chicago Tribune last week gave him an apparently overwhelming lead with 52 per cent of voters polled saying they supported his candidacy. Mr Dole found favour with only 20 per cent of those surveyed.

Polling data has been unreliable in predicting the outcomes of close races, but so wide a margin suggests only an extraordinary upset can deny Mr Bush victory.

Mr Dole, insisting that he is an underdog but not a quitter, has launched an all-out advertising campaign in the state in a last-ditch attempt to stop the Vice-President.

Pointing out that surveys suggest that a bare majority of Republicans in the state do not want the nomination struggle to end here, even though they support Mr Bush, Mr Dole again tried to present himself as a stronger leader than Mr Bush and as the candidate better equipped to defeat the Democratic nominee in November's presidential election.

On the Democratic side Senator Paul Simon of Illinois, who skipped the Super Tuesday primaries, also says that he must score his first primary victory to get back into the race.

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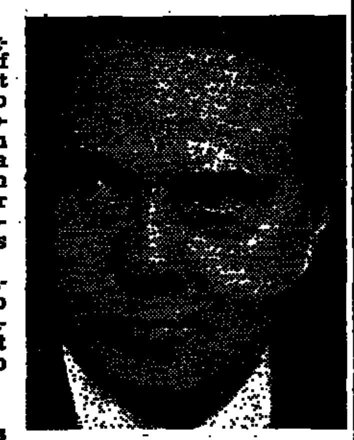
US economy, Page 20; Reagan's trade bill warning, Page 22



Robert Dole: campaign doubts

Shultz and Shamir set for battle of wills on Mideast peace plan

BY LIONEL BARBER IN WASHINGTON AND ANDREW WHITLEY IN JERUSALEM

MR YITZHAK SHAMIR, the Israeli Prime Minister, is due to arrive in Washington today for four days of talks with the Reagan Administration that could determine the fate of the new US proposals for a Middle East peace settlement.

Mr Shamir, who strongly opposes the peace plan, is to hold several rounds of talks with its author, Mr George Shultz, US Secretary of State, in what is being billed as a battle of wills between the two men. Both are to meet President Ronald Reagan on Wednesday.

The talks take place against a background of widespread violence in the Israeli-occupied territories of the West Bank and Gaza. The unrest has heightened unease within the American Jewish community and created an unusually strong consensus in the Administration and US Congress in favour of the Shultz initiative.

Mr Shamir left for Washington cheered on by tens of thousands of right-wing supporters in sympathy with his refusal to budge to US pressure over the Shultz peace plan. The demonstration brought together for the first time the entire spectrum of the Israeli right, from Mr Shamir's own Likud bloc to the religious parties and the Jewish settlement movement in the occupied territories.

Mr Shamir is expected to offer an alternative to the US plan which calls for an international conference as a framework for bilateral talks between Israel and a joint Jordanian-Palestinian delegation. It also proposes an interim phase of Palestinian autonomy in the territories leading up to final resolution of their status.

In an interview in yesterday's Washington Post, Mr Shamir described differences between the US and Israel as "a misunderstanding between friends." But he gave no hint of meeting Mr Shultz's request for a definitive response this week to the peace plan. "I will express my opinion and go home," he said.

The Shultz initiative has received little support among Arab states, but the US Secretary of State remains convinced that the violence in Gaza and the West Bank has raised the stakes for Israel and created an historic opening for a comprehensive peace settlement.

However, US officials have sought to lower expectations for this week's talks, hinting that they might be prepared to extend Wednesday's deadline for replies to the US plan from Israel and Jordan providing the parties showed some positive commitment to its principle of "trading land for peace."

US officials said the Administration would not pressure Mr Shamir.

Threats to reduce US aid to Israel amounting to $3bn a year were "absolutely not on the cards," said one official, who said Mr Shultz would nevertheless use all his powers of persuasion.

The American Jewish community – which used to present a united front against any public *criticism of Israel – has begun to* shift towards a realisation that the long-term occupation of the territories is irreconcilable with long-term Israeli security.

Thirty US senators, including some long-standing supporters of Israel, recently released a letter strongly endorsing the Shultz initiative and expressed "dismay" over Mr Shamir's rejection of the "land for peace" formula.

In Tel Aviv, the National Committee for Israel, an umbrella body for the new right-wing front, said it was rallying the support of the Jewish people to urge Mr Shamir to stand firm.

After the demonstration in a central Tel Aviv square – filled the night before by some 40,000 to 50,000 supporters of the rival Peace Now organisation – a march was planned to Ben Gurion International Airport.

Editorial comment, Page 20

Arab police in mass resignation

THE Israeli authorities have offered additional pay and protection from intimidation to members of the Arab police force working in the occupied territories in a bid to stem a flow of police resignations.

Nearly half the Arab police force in the occupied West Bank and Gaza Strip resigned over the weekend, in the most potent example so far of a civil disobedience campaign beginning to gather pace. Page 3

Lawson seeks to dispel sterling policy confusion

BY PHILIP STEPHENS AND MICHAEL CASSELL IN LONDON

MR NIGEL LAWSON, the British Chancellor of the Exchequer, will seek in his Budget tomorrow to remove the confusion created by his differences with Mrs Margaret Thatcher, Prime Minister, over exchange rate policy. He will reaffirm his commitment to a stable pound.

Both the Treasury and Prime Minister's office yesterday insisted that their apparent conflict in the wake of last week's decision to allow sterling to rise above DM3.00 had been greatly exaggerated.

By last night earlier talk of a healthy argument between Mrs Thatcher and Mr Lawson had been toned down to a straightforward acknowledgement that a predictable discussion on exchange rate tactics had been taking place. It was forcefully emphasised that there was no disagreement on strategy.

Earlier press briefings had highlighted a difference of emphasis. Mrs Thatcher's office stressed the consensus in the Government on the primacy of its anti-inflation policy, while the *Treasury appeared to give more* weight to the goal of exchange rate stability.

Opposition Labour Party leaders tried to exploit what they said were clear divisions on strategy, and will try to highlight them further in their Budget response.

Treasury officials said that despite the decision not to resist sterling's move through its previous ceiling, official policy remained to promote exchange rate stability.

That did not mean total "immobility", but the Government had not abandoned the use of intervention or interest rates to prevent unsustainable shifts in the pound's exchange rate.

The officials drew attention to Mr Lawson's remark in the House of Commons on Thursday, that "any further significant rise in the exchange rate against the D-Mark would be unlikely to be sustainable".

The Chancellor plans to repeat those views in his Budget speech, which is understood to include a sizeable section on the Government's monetary policy.

One official close to the decision to allow the pound to rise said that subsequent reporting of events had "enormously exaggerated" the conflict between Mr Lawson and Mrs Thatcher.

At times there may have been a degree of personal friction between the two, but there was no question of the Prime Minister overruling the Chancellor.

Mr Lawson had agreed – although reluctantly – that holding the pound below DM3.00 in the face of massive foreign inflows might have seriously damaged the credibility of his anti-inflation policy only a few day's before the Budget.

Last week's decision was taken amid official expectations that the Budget will be well received in financial markets and that there might well be a further surge of funds into sterling.

At last Thursday's cabinet meeting the Prime Minister is understood to have reaffirmed her determination to contain inflation.

She expressed concern about the potential inflationary impact of measures designed to resist

Continued on Back Page

Leipzig fair struggles to promote East-West trade links

By David Goodhart in Leipzig

WHEN EVEN the Port of London Authority's promotional literature is carried away in large bundles by spotty youths you know you must be the wrong side of the Iron Curtain.

However, at least the annual trade fair in Leipzig, East Germany, is a fair worthy of the name.

The Eastern bloc's industrial showcase may be a frustrating business for the many Western companies displaying their wares, but for the people of *Leipzig – and far beyond –* it provides a most diverting Sunday outing.

Groups of ordinary East Germans stare blankly at complex electronic devices or sit in the cold, drinking beer. The real enthusiasts queue at the Atari stall for a glimpse of the latest computer game, clutching their bizarre collections of industrial literature.

The exhibitors are not amused. One salesman from a Taiwanese computer group was, in fact, horrified: "These people have taken all my pens, my prospectuses and even my business cards, and this is only the first day."

Business is usually difficult even during the week when there are a few more people from the state trading companies.

"The trouble is you are never actually dealing with the end user, it's always some state intermediary," said Mr Rune Moberg from SKF.

The channelling of business through one or two state groups can at least help simplify trade when times are good.

But despite the platitudes on promoting East-West trade mouthed here yesterday by Mr Erich Honecker, the East German leader, and Mr Johannes Rau, Social Democrat President of the West German state, Rhine Westphalia, the times are not good.

A surprising number of people in West Germany believe that the long-term economic future of their country, and of the EC, lies in dynamising the Eastern European economies.

But East German trade with West Germany fell 5 per cent last year after a drop of 9 per cent in 1986, mainly because of the falling oil price's effect on the East Germans. Things are not going to get better in a hurry.

If the East cannot afford to buy *from the West, at least the West* may find some more attractive goods in the East.

According to old hands such as Mr Hans Ulrich Scholz, export manager of Phoenix Contact, the quality of the Eastern products

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Panama may face public-sector strike over financial crisis

BY DAVID GARDNER IN PANAMA CITY

PANAMA'S military regime, led by Gen Manuel Antonio Noriega, will be unable today to pay the wages of some 120,000 public employees.

For the first time since the country's political crisis began nine months ago, public-sector workers have threatened to strike. They make up more than a quarter of the labour force and have traditionally been a pillar of the 20-year-old regime.

The cashflow crisis is being used by the US Administration and Panama's merchant class to undermine Gen Noriega.

Dockers, power and telecommunications unions say they will have no option but to stop work from this afternoon if the Government goes ahead with its plan to pay them only a small portion of their bi-weekly wages in cash and the rest in cheques and food vouchers.

Cheques are uncashable because the Government is bankrupt and Panama's banks have been closed for 10 days because of the crisis, creating a shortage of actual cash and breaking down all arrangements for credit card or cheque payment.

The regime's total cash resources are now placed at below $10m by reliable informants, while today's wage bill is $34m. It cannot print money because its currency is the US dollar.

Panama was heading for a cash-crunch even before the latest phase of the crisis, set off when Gen Noriega deposed figurehead President Eric Arturo Delvalle on February 26.

Since then, however, the Reagan Administration has taken sanctions against Gen Noriega, including a cut-off in Panama *Canal revenue,* and backed a devastating legal move by Mr Delvalle, which has frozen $50m – Panama's remaining liquid assets – deposited in the US.

Union leaders and senior civil servants have been told "there are missions in many countries looking for political, diplomatic and financial solutions for Panama," according to Mr Antonio Catis, deputy chief of the post office.

Mr Bonifacio Lujan, leader of the public employees, *said:* "We are telling our people that we have to make sacrifices in the face of US intervention. If we don't get paid it's not our fault, but the fault of a traitor named Delvalle who is selling Panama to imperialism."

Despite Mr Lujan's defiance, last week the trade union bureaucracy managed to persuade less than 400 people to march against US meddling in Panama and in defence of the 1977 Panama Canal Treaties.

Even more eloquent and shocking evidence of Gen Noriega's isolation are the frequently heard calls for a US invasion by the few demonstrators brave enough to face the military's, until now restrained, anti-riot squads.

The group that claims to be co-ordinating the feeble protests, the Chamber of Commerce-led Civic Crusade, has virtually ceased trying to disguise that its strategy is to rely on Washington to get rid of Noriega, while it creates a bit of offstage noise.

Meanwhile, the Government's efforts to dig itself out look doomed. Best indications are that it has failed to come up with any aid or credit internationally, while two attempts to generate liquidity by selling off part of the state savings bank portfolio and Panama Canal Zone land have collapsed.

Gen Noriega could buy some time by suspending payments on *the $4bn foreign debt,* printing a new currency and nationalising the banks.

But this will not make the wall of arithmetic surrounding him any more penetrable.

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Brazil Assembly faces key vote on constitution

BY IVO DAWNAY IN RIO DE JANEIRO

A YEAR-LONG struggle between the Brazilian Constitutional Assembly and the government of President Jose Sarney comes to a climax this week in two key votes.

After months of often angry debate, the Assembly – comprising all 559 Congressmen – must finally decide on the system of government to be adopted and the length of the presidential term of office.

These two issues have dominated the political agenda since the Assembly began writing a new constitution 13 months ago. President Sarney's ceaseless efforts to secure a five year term with a presidential, as opposed to parliamentary, system are regarded as the prime reason why he has hesitated in taking unpopular steps to tackle the country's mounting economic crisis.

Despite endless debate, the Assembly appears divided down the middle on both issues with many Congressmen still undecided.

At the weekend, the conviction was growing that the outcome would be a five year presidential term with parliamentarism. This would leave Mr Sarney in office until March 1990 as he desires, but sharply reduce his powers in favour of a prime minister.

Supporters of parliamentarism believe that Brazil's crisis of leadership can only be resolved by devolving accountability to Congress, which has languished all but powerless since the military coup of 1964.

The presidentialist faction argues that Brazil's lack of party discipline and ever-shifting coalitions will make a parliamentary system of government unworkable.

Many in both groupings, however, back a four year presidential mandate which would lead to elections in November.

In an effort to find the broadest consensus on these issues, Mr Ulysses Guimaraes, the Assembly's president, spent the weekend consulting with political leaders.

He has also held talks with armed forces ministers who last week came down firmly for a five year term under a presidential system on the grounds that elections this year will provoke disorder and a surge in spending by candidates at a time when the priority should be given to an economic austerity programme.

While the vote this week will define the system and mandate for future presidents, Mr Sarney will have to wait until transition arrangements are hammered out possibly next month before being sure of his fate.

Holocaust reminder for Austrian Jews

BY JUDY DEMPSEY IN VIENNA

AUSTRIA'S tiny Jewish community yesterday commemorated the 50th anniversary of the Nazi takeover of Austria with an impassioned appeal by Mr Franz Vranitzky, the Chancellor, not to forget the horrors of the holocaust nor to exclude anyone from society.

Mr Vranitzky delivered his speech in Vienna to 1,000 Jews who gathered on Morzinplatz near the Danube Canal, where the Gestapo rounded up thousands of Jews and deported them to the concentration camps. More than 65,000 Austrian Jews died.

"Let the screams of desperation that are no longer heard but resounded from the cellar of this site be a reminder," the Chancellor said adding that the Austrian Jews had lost their feeling of belonging because of the tragedy.

The Chancellor, who was yesterday described as "our good friend" by Mr Paul Gross, the president of the Jewish community, said that all the different kinds of fascism had one thing in common: the destruction of human solidarity.

Bonn may block EC lorry travel proposals, **William Dawkins writes**

West Germany heads for clash on road haulage

WEST Germany is heading for a major clash with the European Commission today over deadlocked plans to liberalise road haulage.

Bonn is expected to refuse at a meeting of transport ministers, which ironically it is chairing, to commit itself to ending the present system of country-to-country lorry travel quotas.

This is one of the most widely felt of the trade barriers which the Commission is pledged to demolish by 1992 and Brussels is determined to tackle it quickly to give the highly-regulated freight industry time to adjust.

If West Germany can win French and Italian backing, as it did the last time transport ministers wrestled with the proposal, it will have enough votes to block the scheme.

Although the proposal threatens jobs and living standards, Paris is pressing Bonn for agreement, but West Germany is insisting that the proposal needs unanimous support to become law, rather than the qualified majority it would normally require.

The Commission, meanwhile, is threatening to sue member-states for failing to remove this technically illegal trade barrier. All the elements of a fight will be in the air as the ministers gather in Brussels this morning. Moreover, it is the first real test of member-states' commitment to the internal market since the budget reform breakthrough at the February summit.

The compromise on the table is to enlarge by 40 per cent annually the number of licences which member-states issue each other for cross-border lorry trips and to remove quotas entirely by 1992.

Mr Stanley Clinton Davis, Commissioner for Transport, feels this is one area where Brussels has little room for compromise, if only because of its importance to the internal market.

Quotas govern more than half of EC road haulage and a much higher share of overall intra-Community trade, running at Ecu 466.6bn (£321.9bn) at the latest count.

Yet Mr Jurgen Warnke, the West German Transport Minister in the chair today, is in a straitjacket, in the words of one official.

Certainly, Bonn's worries about lorry quotas do not sit well with its much publicised efforts to use its weight as EC president to flatten as many market barriers as possible.

The problem is that the historically well-protected West German lorry owners - like farmers - hold political influence out of all proportion to their number. They fear an end to quotas will result in German freight business going to their lower taxed, less regulated and more efficient Dutch and Belgian neighbours.

Bonn has always argued that it could accept liberalisation if the EC accepted common rules for drivers' conditions and road and fuel taxes.

"The principle is that there should be an equal burden for all transport users," says one diplomat. Accordingly, the Commission has, since the last failure to get an accord on the issue just before Christmas, produced outline plans for common lorry road taxes, which German officials accept have gone some of the way to winning their hearts.

Mr Warnke may well propose an annual enlargement in quotas, but leave open the key question of whether to end them entirely, something the Brussels authorities could never accept.

This is because the Commission argues that not only are quotas contrary to EC law, but they are also unfair.

It says the system discriminates against small countries, especially those on the EC's outer borders, which obviously have less to bargain with when it comes to fixing bilateral quotas with big central countries.

Just whose interests are at stake are underlined by Commission figures showing that while Denmark has the right to make just 3,000 lorry journeys to West Germany annually, there is no such limit for German drivers in Denmark. Instead, Copenhagen issues licenses to 590 German hauliers to make as many trips as they like.

The Netherlands and West Germany account for nearly a third of all EC lorry traffic in roughly equal shares between them, a symptom of the importance of the port of Rotterdam and the sheer size of the West German economy.

Also, they allow each other the most generous quotas - roughly 744,000 each way - in any bilateral deal in the EC, apart from the free transit that some provide for favoured neighbours, such as the UK for Ireland or Spain for Portugal.

All this leads to some startling distortions. Dow Chemical, for instance, recently estimated that up to quarter of the 200 trucks leaving its factories in Benelux daily are forced by these restrictions to return empty from their EC delivery points. The extra cost, the Commission argues, is passed on to consumers and hinders the competitiveness of EC-based companies.

To take some more oddities, a Greek lorry carrying wine (freely marketable throughout the Community) to Amsterdam would need permits to cross Italy, Germany and France, but not to drive over the Dutch border.

This, says Brussels, shows how absurd it would be to open up the Community market for industrial and consumer goods but to exclude the lorries which distribute them.

Absurd maybe, but the tough realities of national interest mean that the end of the road for quotas could easily elude today's session.

Irish alert over IRA funeral cortege

BY KIERAN COOKE IN DUBLIN

POLICE AND security forces on both sides of the Irish border will be on special alert later today as the bodies of the three Irish Republican Army members shot by the British army in Gibraltar arrive back in Dublin.

The bodies of Mairead Farrell, Dan McCann and Sean Savage are due to arrive at Dublin Airport at 4pm today on an aircraft chartered by the families of the dead. A funeral cortege will then go North, stopping in the strongly Republican town of Dundalk south of the border on the way.

While both the IRA and Sinn Fein, the organisation's political wing, have indicated that there will not be an overt military display accompanying the cortege and at later funerals in Belfast, the security forces are expecting the event to be used to demonstrate support for the IRA.

The Royal Ulster Constabulary made a weekend appeal to the families of the dead to give a public undertaking that the funerals would take place within the law. It is understood there has been no response to the appeal, though two of the families involved have said they want private, quiet funerals without military display.

The RUC has warned it would intervene if the IRA sent in masked gunmen to fire a salute over the coffins at the funeral.

Several nights of rioting took place in Republican West Belfast following the Gibraltar shootings.

In the Irish Republic there has been strong criticism of the way the British security forces, believed to be units of the elite Special Air Services, shot the IRA gang, who were subsequently found to be unarmed. The Irish Prime Minister has said that the shooting of unarmed civilians should not be tolerated in any democratic society.

However some members of the opposition in the Irish Parliament have said the Government should refuse permission for the aircraft carrying the bodies to land in Dublin. Mr Sean Barrett, justice spokesman for the Fine Gael Party, said the Government should not allow the occasion to be used as "a public relations exercise for terrorists".

Sinn Fein opened an unofficial book of condolences for the three guerrillas outside Dublin's General Post Office.

Chernobyl still casts shadow over Italy's political scene

BY JOHN WYLES IN ROME

NEARLY two years after the Chernobyl disaster sent a shiver of fear around the world about the safety of nuclear power stations, it seems that only Italy is suffering an enduring political trauma.

The resignation of Mr Giovanni Goria's government last Friday was prompted by a deep rift between the Prime Minister's Christian Democrat party and its main coalition partner, the Socialists, over whether work should restart on completing a 2,000 MW nuclear station to the north of Rome.

The Prime Minister's insistence that the Government should override Socialist opposition and give the go-ahead to re-opening the works at Montalto di Castro, closed at a cost of L1bn (£445,000) a day since last December, was shrewd short-term politicking.

It leaves the Socialists apparently carrying the blame for a crisis whose real origins are convulsions in Mr Goria's own Christian Democrat party.

But the Prime Minister's move threatens further delay and uncertainty about energy policy and nuclear power's role within it. Mr Francesco Cossiga, the Italian President, will probably complete his soundings over the next few days by inviting Mr Ciriaco de Mita, the Christian Democrat leader, to try to form a government.

He in turn may well find that the future of Montalto could become a real stumbling-block to the formation of a new coalition.

There is, in fact, an anti-nuclear majority in the Italian parliament if the Socialists join forces with the Communists, Radicals, Greens and Democratic Proletarians.

If Mr Bettino Craxi keeps last Thursday's cabinet decision on Montalto standing, he risks losing support to the parties to his left who will claim he is betraying the 80 per cent majority in last November's election which voted against nuclear power.

Organised in the heat of post-Chernobyl panic, that referendum was not a clear-cut popular consultation on the principle of nuclear power.

As a result, the majority in the five-part coalition has chosen to interpret the result as allowing Italy to retain a nuclear "presence".

The Socialists have never clearly dissented from this, but neither have they supported opposition calls for straightforward exit from the nuclear sector.

They seemed to be moving towards acquiescence on Montalto last December when they only grumbled about the Government reaching a policy statement through parliament on a confidence vote.

The vote provided for the completion of the nuclear plant, subject to further assurances about the safety of its reactor.

But the policy suspended initial preparation work on a second reactor at Trino and shut down for good the small 25-year-old plant at Latina.

If the Socialists now decide that the decision on Montalto must be re-opened, the financial and energy costs could be high.

Mr Giulio Andreotti, perennial candidate for the premiership if Mr De Mita stumbles, is said to believe that sacrificing Montalto is an acceptable price to pay for a new five-party coalition. Which suggests that energy policy considerations may come a poor second to party political interests in resolving this latest political crisis.

Gem of a find for De Beers

By Jim Jones in Johannesburg

MR Julian Ogilvie Thompson, De Beers' chairman, displayed a fine sense of theatre in Kimberley on Friday night by announcing the discovery of the sixth largest South African diamond – a 599-carat blue-white gem to be called the Centenary.

The stone, worth an estimated $20m, was unearthed in July 1986 at the Premier mine near Pretoria though news of the find was withheld while experts decided how the gem should be cut.

Banquet

More appropriately, perhaps, the news was held back to provide Friday's piece of theatre played to 400 guests at De Beers' centenary banquet on the edge of the Big Hole, the site of the diamond company's first mine.

The world's largest diamond was the 3,106 carat Cullinan, found at the Premier mine in 1905, a perfect blue-white stone which yielded 105 polished gems including the 530 carat Cullinan 1 gem now set in the British royal sceptre. The second largest was the 972 carat Excelsior from the Jagersfontein mine near Kimberley. It is followed by the 726 carat Jonker found in 1934 on a farm near the Premier mine; the 640 carat Jubilee from Jagersfontein; and a 616 carat but virtually valueless stone.

On Friday Mr Ogilvie Thompson said it was unique for a company to have dominated the diamond trade for a century.

Confident

De Beers operates a cartel which markets about 90 per cent of the world's diamonds, including stones from all over Africa, the Soviet Union and new production coming from Australia.

Mr Ogilvie Thompson expressed his confidence in the diamond market which has emerged from its worst crisis since the early-1930s.

Colombians vote for mayors

BY SARITA KENDALL IN BOGOTA

COLOMBIANS went to the polls yesterday to elect mayors for the first time, a reform seen as a crucial step towards strengthening democracy.

The mayors will not only have local political backing during their two-year terms; they will also have greater financial freedom from central government.

The elections, of just over 1,000 mayors, give the left-wing Patriotic Union (UP) the opportunity to measure its strength at local level and could put former guerrilla fighters into powerful positions, including command of municipal police forces.

The UP was formed largely to channel the left's political aspirations along democratic lines and hundreds of its militants have been murdered since its foundation.

The party is only fielding 88 candidates but they are expected to do well in such areas as the Llanos, dominated by the communist-leaning Revolutionary Armed Forces of Colombia (FARC).

The Liberal and Conservative parties will be fighting it out over most of the country. In Bogota, a split among the Liberals should give Conservative Andreas Pastrana an easy victory as mayor. Mr Pastrana was kidnapped earlier this year by drug-traffickers.

As part of President Virgilio Barco's decentralisation plan, the municipalities will manage their own water supply, housing, road building and other programmes. The transfer of resources to local governments is expected to cause problems at first, particularly because of the lack of technical and professional expertise.

With much more at stake than in previous local elections, vote-buying has boomed. Candidates have offered scholarships, clothing, food and cement in a desperate attempt to ensure votes.

Hitch over vice-presidential vote fails to upset Suharto's triumph

BY JOHN MURRAY BROWN IN JAKARTA

INDONESIA'S President Suharto was sworn in for a fifth term yesterday after a last-minute hitch over the vice-presidency.

Gen Sudharmono, head of the ruling Golkar Party, was duly elected vice-president after the dramatic withdrawal of a minority-party challenger.

What should have been a formal occasion had come to life on Thursday when before the 1,000-member National Assembly Brig Gen Ibrahim Saleh seized the speaker's podium and branded the election as "unfair and incorrect".

Perhaps no one was more surprised than Mr John Naro, leader of the Moslem-based United Development Party (PPP). His decision to contest the vice-presidency had left the Assembly in near total confusion. Senior Golkar officials went as far as to suggest Mr Naro was unfit to work with President Suharto, such was their concern that the issue might for the first time have to be resolved by a vote.

Those fears receded at the end of last week when Mr Naro withdrew after consultation with President Suharto.

The routine business of the Assembly is now over. As expected, Gen Suharto was re-elected unchallenged for another five-year term. The state guidelines, a rather bland prescription for the coming term, have been approved, albeit after a few hiccups.

The army faction in the assembly announced last week it "supported" rather than "nominated" Gen Sudharmono for the vice-presidency.

In a week of semantic quibbles this was considered the best yet. Gen Kharis Suhud, the speaker, had already set the tone when he told journalists: "We will have a new President although the man will be the same."

If Gen Saleh's brief walk-on part was completely out of keeping with Indonesia's traditions of "consultation" and "consensus", it provided a glimpse of the rivalry between the military and the bureaucracy, which President Suharto is said to encourage.

Gen Benny Murdani, who recently stepped down as armed forces commander, is widely said to be out of sorts with the new vice-president. On Thursday in the Assembly he publicly distanced himself from Gen Saleh's remarks, but it was somewhat half-hearted. Some commentators believe Gen Murdani may share Gen Saleh's concerns.

The exact causes of the rift are far from clear. Gen Sudharmono is seen as President Suharto's own choice. However, the extensive powers that this former army lawyer has acquired, often at the military's expense, are increasingly resented.

Golkar used to be controlled by the military, with army men holding all key positions in its central committee.

Since taking over the leadership in 1983, however, Gen Sudharmono has wrought dramatic change. In last year's parliamentary elections Golkar increased its majority in the legislature, for the first time without depending on the strong-arm tactics of the armed forces.

Gen Suharto is seen as encouraging the trend: as a compliant Golkar chief can counter the power of the military, so enhancing the President's own authority.

Less clear is the influence Gen Sudharmono will wield once he has given up Golkar and his position as State Secretary, both powerful levers of patronage. His elevation to the vice-presidency, which caps 20 years working closely with the President should allow Gen Suharto now 66 to offload some of the chores of office.

Diplomats also say Gen Sudharmono is someone trusted to protect the very considerable business interests of the first family should the President step down in mid-term.

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China set for trade talks with S Korea

By Robert Thomson in Peking

SENIOR Chinese government officials have indicated that formal direct trade links with South Korea are a distinct possibility in a significant policy shift that will be strongly opposed by North Korea, Peking's long-time ally.

In recent meetings with Japanese economic delegations, Vice-Premier Tian Jiyun and officials of the Ministry of Foreign Economic Relations and Trade have suggested that Peking's approval of direct trade with South Korea was inevitable.

The two countries have a direct trading relationship, but because of the sensitive North Korean connection, Chinese officials publicly maintain that no such direct relationship exists and have not previously indicated that a major change of policy was being cosidered.

According to delegates to a Sino-Japanese economic conference, Tian said:"Taiwan and South Korea are preparing to expand economic relations with China. In the future there will be the development of direct trade. This is a challenge to Sino-Japanese economic relations."

The Chinese statement is apparently intended as a warning to Japanese companies and the government that they would face strong competition from South Korea and Taiwan which does not yet permit direct trade.

However, after the vice-premier's comments appeared last week in the Japanese press, an Assistant Trade Minister, Shen Jueren, held a meeting with Japanese diplomats to suggest that Tian's words had been partly misunderstood, though he did not deny that direct links were probable.

Asian diplomats believe the government was embarrassed that the comments received heavy coverage in Tokyo and, fearing a strong reaction from North Korea, attempted to cover its tracks.

China has already irritated Pyongyang by agreeing to attend the Seoul Olympics, and the government has publicly ignored overtures from the new South Korean leadership for closer ties.

But Shen Jueren, in a later meeting with Japanese officials, clearly confirmed that direct trade with South Korea was probable, though he was again vague about the timing.

Trade between China and South Korea last year was estimated at around $1.5bn (£880m) and is expected to rise this year, though reports that China is contemplating opening a trade office in Seoul, and could allow South Korea to open an office in Peking, have been denied by the foreign ministry.

Iran launches attack

Iran said it launched an offensive deep into Iraq yesterday and both sides in the seven-year-old war claimed to have inflicted heavy casualties, Reuter reports from Nicosia.

The Iranian news agency IRNA said the joint offensive by Iranian forces, Kurdish rebels and Iraqi resistance fighters killed or wounded scores of enemy troops in north-eastern Iraq.

West German right-wing publisher combs Nazi files in Berlin

BY DAVID MARSH IN BONN

EXTREME right-wing West German groups have gained access to records in the US-run Berlin Document Centre to glean material for publication on the Nazi past of prominent Germans, US officials in Berlin said at the weekend.

They said that Dr Gerhard Frey, the publisher of the far-right Munich-published National Zeitung newspaper, had succeeded in recent years in uncovering information at the centre for recounting in his publications the histories of individuals prominent in the Third Reich.

The centre contains 30m Nazi documents captured after the war including original Nazi membership files. The centre had tried to crack down on misuse by "agents" working on Dr Frey's behalf but some historical researchers granted access to the documentation had passed him material, the US Mission in Berlin admitted.

Revelation of the right-wing publisher's success in trawling for documents in Berlin, which was confirmed by Dr Frey at his Munich headquarters, comes as West Berlin justice officials continue investigations into the theft and sale of several thousand Nazi files from the centre. Some of the material has turned up with dealers in Nazi memorabilia. Suspicions that the stolen files could be used to blackmail ex-Nazis have not been confirmed so far.

The new twist to the affair may add to controversy in West Germany about the running of the centre. The Bundestag (federal assembly) in Bonn last week called on the West German Government finally to take over the documents from the US.

Transfer of the records has been under discussion for 20 years but has been held up by delays in microfilming the files. Mr Horst Waffenschmidt, state secretary in the Interior Ministry, in the Bundestag last Thursday rejected suspicions that successive Bonn governments had deliberately slowed down the takeover because of embarrassment over the Nazi files. He said consultations on the takeover were continuing.

Dr Frey said at the weekend that part of the contents of his two 500-word books *Prominente ohne Maske* (Celebrities without Masks) had been gathered using historians given bona fide access to the Berlin centre. He claims sales of 50,000 copies of the first book, with 20,000 for the second one and a third volume due out soon.

He said he used for source material a network of around 20 historical agents searching for Nazi archive material around the world, who were paid for their services. But Dr Frey denied that he had used unlawful means to acquire information.

MR Helmut Kohl, the West German Chancellor, is to visit the Soviet Union this year and Mr Mikhail Gorbachev, the Soviet leader, will go to West Germany in the first half of 1989, Reuter reports from Bonn. The West German Government said that the exact dates had yet to be decided.

West German officials said last year they wanted Mr Gorbachev to visit Bonn in the first half of this year while West Germany held the presidency of the European Community.

Mr Kohl last made an official visit to the Soviet Union in July 1983 for talks with President Yuri Andropov.

Dr Frey runs his activities, which include a far-right political party, the Deutsche Volksunion, from a large villa in a Munich suburb surrounded by a high fence.

The National Zeitung is the largest of his newspapers with a weekly sale put by Dr Frey at 90,000. The newspaper takes an unashamedly anti-Israeli stance, pleads for the reunification of the German nation, defends Mr Kurt Waldheim, the Austrian president, from the present campaign to unseat him, and regularly attacks Mr Richard von Weizsaecker, the West German president, on account of his efforts to plead for post-war reconciliation.

One of Dr Frey's recruits has been Mr David Irving, the British historical author. Mr Irving, a prodigious uprooter of Nazi archival material, has acquired notoriety through his insistence that Hitler did not play a leading role in the persecution and murder of European Jews.

Mr Irving, speaking on the telephone from his London office, said he was asked by Dr Frey in 1984 to use his contacts at the Berlin Document Centre to find out information on 700 named persons, including well known West German politicians.

Mr Irving said his request to be given information from files concerning anyone on the list of 700 was turned down by the Document Centre. Dr Frey offered him DM1,000 (£323) per name for material, but no money changed hands.

Mr Irving said he sympathised with Dr Frey's probing to clear up hypocrisy

The Berlin Document Centre does not normally grant access of files to private researchers on people known to be still alive, although exceptions are made for investigations by government and legal agencies.

Although open for inquiries by legitimate researchers, the centre has often been criticised for its secrecy, but points to the sheer technical difficulty of releasing for general access millions of ageing files.

Israel seeks to stem wave of resignations by Arab policemen

BY ANDREW WHITLEY IN JERUSALEM

THE RESIGNATION over the weekend of nearly half the Arab police force in the occupied West Bank and Gaza Strip is the most potent example so far of a civil disobedience campaign beginning to gather a head of steam.

In a last-ditch effort to prevent the resignations snowballing to include other local employees of the military-run Civil Administration – such as hospital workers and court officials – the Israeli authorities have offered additional pay to policemen willing to stay on, and protection from intimidation.

But with more than 500 of the 1,050-strong force having already handed in their notice – most due to take effect today – there was considerable pessimism in Israeli police circles yesterday. A senior police officer in the southern part of the West Bank said grimly: "There is no way we can stop this. The only way is if the (uprising) leaders tell them to go back."

The locally raised force, under the supervision of Israeli commanders, is responsible for handling traffic offences and non-political crime, leaving security affairs to the Israeli army and Shin Bet, the domestic security service.

Mr Haim Bar-Lev, Israeli Police Minister, led a chorus of warnings yesterday that the only people to suffer from the resignations would be the Palestinian population. "The thieves will celebrate. The traffic offenders will celebrate. That's what it means," he said before a Cabinet meeting which discussed the alarming development at length.

In Bethlehem, Ramallah and Hebron only a handful of Arab policemen remained at their posts. But, contrary to expectations, no replacements are to be sent from Israel. Instead, branch police stations are to be closed and services reduced to a bare minimum.

At an emergency meeting of the Israeli police in Jerusalem yesterday, it was decided that in future there would be no investigations of crimes, including rape, murder, housebreaking and robbery.

Mr David Krauss, the police commissioner, said on Army Radio that the resignations would be tackled by approaching individual policemen directly to persuade them to change their minds, and by "neutralising the instigators".

Vassiliou in Athens for key talks on Cyprus

BY ANDRIANA IERODIACONOU IN ATHENS

MR GEORGE VASSILIOU, the recently-elected President of Cyprus, arrived in Athens yesterday for key policy talks with the Greek Government on a settlement for the divided island republic.

Mr Vassiliou repeated a call for a meeting with Mr Turgut Ozal, Turkish Prime Minister, at a time and place of the latter's choosing.

This offer has so far been indirectly rejected by Ankara, which has said that the Cypriot president's counterpart for talks is Mr Raouf Denktash, leader of the Turkish-Cypriot community.

Mr Vassiliou's election to power coincided with dramatic improvement in Greece's relations with Turkey, which has occupied over one-third of Cyprus since invading the island in 1974.

Today, the Cypriot president and Dr Andreas Papandreou, Greek Prime Minister, are expected to examine the prospects for a Cyprus settlement, and to hammer out a common Athens-Nicosia strategy for pursuing it.

Since his election, Mr Vassiliou has insisted that a solution to the Cyprus problem must include full withdrawal of Turkish occupation troops, firm guarantees against the breakdown of the new *status quo*, and the freedom to move, and own property throughout the island.

Issue of racism revived in French election

BY IAN DAVIDSON IN PARIS

THE FRENCH presidential election campaign has begun to take an uglier turn on the right of the political spectrum, as the two leading centre-right candidates, Prime Minister Jacques Chirac and former Prime Minister Raymond Barre, struggle to break out of their neck-and-neck position behind President François Mitterrand.

In a reversal of previous patterns, immigration and racial issues have started to play a bigger part in the campaign; and the neo-Gaullist RPR party has begun to take advantage of its government role to claim that secret government polls are in fact much more favourable to Mr Chirac than the polls published in newspapers.

Last week it seemed that the three main party groupings, the Gaullists, the UDF centrists and the Socialists, had largely turned their backs on the racist and anti-immigrant challenge of Mr Jean-Marie Le Pen and his National Front party, and managed to prevent him from commanding political centre-stage. This was wishful thinking.

Mr Jacques Chirac delivered a speech in Marseilles, a stronghold of Le Pen support because of its concentration of immigrants, in which he was openly wooing National Front voters. Boasting of government efforts to control immigration, and of expulsions of illegal immigrants, he claimed that through the twin policies of "repression and integration", immigration problems would be settled within five years.

"No-one," he said, "has ever reproached me with being xenophobe or racist. Those are sentiments which are not natural to the French. The developments which we have recently witnessed, has led a certain number of our fellow citizens to feelings of this kind. And if I cannot condone it, I can understand it."

This last sentence has been condemned by the Socialist Party as "unbelievable and scandalous". Mr Lionel Jospin, secretary general, commented that "You do not understand racism and xenophobia, you fight it".

Meanwhile, President Mitterrand, still the leading if undeclared candidate in the opinion polls, has declared his support for SOS-Racisme, the leading anti-racist pressure group, in a video-clip shown to a songs-and-speeches rally held by SOS-Racisme near the Bois de Vincennes.

The controversy over the public opinion polls revolves round the claim by Mr Charles Pasqua, Gaullist Interior Minister and leading campaign manager for Mr Chirac, that his ministry's secret Renseignements Generaux polls were very favourable to Mr Chirac. Though Mr Pasqua declined to reveal his figures, on the grounds that they were secret, a radio journalist subsequently claimed that they gave Mr Chirac a clear lead over Mr Barre, and a narrow victory over Mr Mitterrand in the second round.

Mr Pasqua's "revelations" have been violently attacked by the socialists as "disinformation", and by Mr Barre's supporters as "attempted manipulation of public opinion". They have also been greeted with general incredulity by commercial polling organisations.

This year's race may be entirely open. A poll published in yesterday's Journal du Dimanche indicated that in February 42 per cent of the electorate had still not made up their mind whom to vote for, whereas "only" 35 per cent were so undecided in January. This could be because the proportion who find the campaign "uninteresting" has gone up from 47 per cent to 61.

Armenians call off protests

BY CHRISTOPHER BOBINSKI IN MOSCOW

MASSIVE demonstrations planned by Armenians for March 26 in Yerevan, their capital, have been called off by a 600-strong national co-ordinating committee, Mr Edward Alkazyan, the republic's official delegate in Moscow said at a church yesterday.

The decision came after the Soviet leadership last week said it would examine the demand for annexation of the Nagorno Karabakh region which now a part of the Azerbaijani Soviet republic.

At the same time Armenians in Moscow have launched a protest campaign against the blackout in the Soviet media on killings of their countrymen in the Azerbaijani town of Sumgait at the end of last month, the meeting of 1,000 Armenians outside the church was told.

Women in the crowd wept as Mr Bangelyan, an oil rig employee from Sumgait described how officials had not wanted to let him see the mutilated body of his daughter.

Mrs Raisa Pogosyan, another Sumgait resident, accused the authorities in the Azerbaijani city of steering the killings, as a few uniformed policemen as well as plain-clothes security men watched but did not intervene.

The recent events in Transcaucasia have also led to demands in Moscow for the establishment of an independent Armenian committee as well as more cultural facilities in the Soviet capital alongside the republic's official delegate.

Armenians have applied for official permission to hold a three-hour rally outside the Pravda newspaper office in Moscow next Sunday.

Gorbachev in Yugoslavia to study economic reform

BY ALEKSANDAR LEBL IN BELGRADE

MR MIKHAIL GORBACHEV, the Soviet leader, arrives in Belgrade today for a first official visit to Yugoslavia, during which he is expected to study economic reforms being introduced in the country.

Mr Gorbachev will hold talks with Yugoslav leaders, and visit state enterprises, farms, and scientific institutes. He is also scheduled to address the federal parliament.

The five-day tour is designed to strengthen ties between the two communist states.

During his visit, Mr Gorbachev will take a close look at Yugoslav "self-management3, a highly-decentralised economic system launched 30 years ago.

Mr Gorbachev is keen to scout the system for ingredients that could be included in his own reforms, officials said.

The two sides will issue a joint declaration at the end of the visit, covering state relations, disarmament, regional conflicts, and human rights.

OVERSEAS NEWS

Tony Walker reports that Cairo's Fund-inspired reforms have run out of steam

IMF sees how Egypt is taking its medicine

LIKE a pair of sumo wrestlers locked in combative embrace, Egypt and the International Monetary Fund are again engaged in difficult and delicate discussions on the management of the debt-ridden Egyptian economy.

A senior Fund official arrived in Cairo at the weekend for a crucial talks on faltering progress Egypt has made in implementing an IMF reform programme agreed to last May in return for a $325m standby credit.

Adding to pressures on Egypt to comply with IMF conditions is the need to qualify for a second rescheduling of part of its more than $40bn foreign debt by the second half of this year.

Egypt last May concluded a Paris Club rescheduling of about $8bn of government-guaranteed loans involving some 18 creditor nations. The rescheduling covered arrears as well as debt falling due between January 1987 and June 1988.

The latest Egyptian-IMF discussions coincide with increasing concern within the Government at an apparent accelerating rate of inflation to around 30 per cent annually, and perhaps more. The authorities are also grappling with worrying shortages of basic commodities such as sugar and cooking oil because of a foreign exchange shortage.

Taking into account normal pre-IMF talks posturing by Egyptian officials, there appears a genuine fear within the Government that renewed political unrest should further austerity measures add to the burden on the poor.

Mr Ibrahim Nafeh, editor-in-chief of al-Ahram, the government daily, and a confidante of President Hosni Mubarak, warned in a long article on the IMF last month that Egypt could not be rushed into further reforms that might endanger civil order.

"Egypt is the master of its own decisions, the planner of its own programme and administrator of its own reform steps which it sees fit for its social and economic position," Mr Nafeh wrote, echoing the words of Mr Mubarak on the eve of a visit to Washington in January.

Fund officials face the difficult task of assessing to what extent Egypt has made a genuine effort to implement IMF reforms, and whether its failure to comply with the programme is the result either of lack of political will or unforeseen factors that have affected its foreign exchange earnings, or a combination of both.


President Mubarak of Egypt

Broadly, the IMF had asked Egypt to restrain its budget deficit to 13 per cent of gross domestic product and to rationalise its various rates of exchange. The Fund has also been pressing Egypt to allow interest rates to rise to take account of inflation.

Egypt made progress initially in its efforts to comply with the IMF programme – one of the softest ever concluded by the Fund. It devalued its currency by 63 per cent to narrow the gap between the official commercial rate and black market. It also increased energy prices in an effort to reduce the burden of subsidies

But by the latter part of 1987 reform momentum had dissipated. Egyptian officials were once again raising the spectre of social unrest if the IMF-backed austerity programme was strengthened.

The IMF has encountered serious difficulties trying to extract from Egypt current and credible figures on its budget deficit which, according to some foreign estimates, may well exceed 17 per cent of GDP. It is now accepted that Egypt has no chance of meeting the Fund target of 13 per cent of GDP.

The IMF team, which includes its regional director Dr Shakhour Shaalan, is expected to complete Article IV consultations in the next week or so and report to the Fund's board in April on whether a new and more flexible reform programme should be agreed and whether to release a second tranche of the $325m standby facility.

The betting in Cairo is that the IMF, under pressure from Egypt's creditors, principally the US and the countries of Western Europe, will grant the Egyptians a reprieve. It is thought unlikely that IMF will "pull the plug" on Egypt at this stage.

Extenuating circumstances that could be cited by the two parties, anxious to save face, for an even more flexible IMF approach than was apparent last May, is the continuing soft oil market (Egypt's main foreign exchange earner is oil) and the fall in cotton prices, another important export.

A possible pointer to IMF flexibility was the World Bank's recent agreement to stretch the period during which Egypt would be obliged to raise energy prices to world parity to enable it to qualify for some $800m in soft loans for the power and agriculture sectors. The World Bank had been insisting that Egypt achieve world parity within five years. That period has now been extended to seven.

Pretoria braces for attack on church leaders

BY JIM JONES IN JOHANNESBURG

FURTHER restrictions were placed on South African anti-apartheid groups at the weekend while the Government shaped up for an attack on church leaders who are increasingly critical of its silencing of dissent.

On Saturday Mr Adriaan Vlok, Minister of Law and Order, banned all activities of the Committee for the Defence of Democracy and prohibited a public meeting it had planned for yesterday afternoon at the University of the Western Cape. He also warned of government action against clergyman whom, he said, were "on the road of confrontation".

The CDD was formed last week by Archbishop Desmond Tutu, Dr Alan Boesak and other opponents of apartheid to take care of the affairs of 18 anti-apartheid groups restricted on February 24. Yesterday afternoon its planned public meeting was replaced by a special service at St George's Anglican cathedral in Cape Town which coincided with other church services held in black townships to pray for political detainees and the restricted organisations.

In Soweto, the Regina Mundi catholic church was filled to capacity while a small group of policemen and soldiers kept watch outside. The Cape Town service was addressed by Archbishop Tutu, Dr Boesak, Roman Catholic Archbishop Stephen Naidoo and Mr Dullah Omar, the Western Cape chairman of the UDF.

Police filmed people entering the cathedral and manned blocks on roads leading to the centre of the city. They were also reported to have encircled the University of the Western Cape.

In his warning to the churches on Saturday, Mr Vlok claimed: "Rather than becoming involved in the true Christian message, certain clergy are becoming more and more involved in preaching revolution." He added the ANC was doing everything in its power to involve the church in its "pre-revolutionary onslaught".

● Last Thursday four Roman Catholic archbishops and three bishops observed the law which prohibits public meetings and took turns individually to display posters outside Johannesburg's Catholic cathedral.

Pre-election tensions build up in Kenya

By Victor Mallet in Nairobi

POLITICAL tensions are increasing in Kenya before the general election on March 21, with opponents of President Daniel arap Moi stepping up their attacks on the Government and its campaign.

Mr Bedan Mbugua, editor of a magazine sponsored by the National Council of Churches of Kenya, was questioned by police this last after he published an editorial which called the election nominations a mockery of democracy.

"In most areas, the administration terrorised citizens," he wrote. "There were countless glaring examples of the use of force .... Democracy in Kenya has slipped a step downward, putting the country on to the path of self-destruction which many African countries have followed."

At the same time MwaKenya, the underground socialist movement, has reasserted its presence by distributing a statement accusing the authorities of corruption and massive vote-rigging. The organisation called for an election boycott.

Government ministers expressed outrage at the open criticism by Mr Mbugua in Beyond, the church magazine, and officials reacted with the traditional dark references to foreign interference and tribalism.

There is particular concern about the newly-introduced system of public queueing behind candidates' photographs to nominate those who may qualify for the final secret ballot.

Mr Charles Rubia, an outspoken former MP, was eliminated for not winning enough votes during nominations last month and says the results were fixed.

SHIPPING REPORT

Dry cargo rates show strength

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

THE upward trend in dry cargo rates continued to strengthen last week and spread to ships of all sizes in both Atlantic and Pacific markets.

In the tanker market, however, things were different, despite an increase in the price of crude oil, which brokers had speculated might encourage demand from charterers. Galbraith's, the London brokers, said there was little inquiry for VLCCs (very large crude carriers) in the Gulf, and rates increased only slightly.

Demand was strong in in West Africa, however, and rates for ships of the 1m barrels size for discharge in the Gulf of Mexico increased from Worldscale 52½ to Worldscale 62½ during the week.

Denholm Coates, the London dry cargo brokers, said Soviet charterers were "extremely active" in the Atlantic, particularly for ships of around 25,000 tons for March/April grain shipments from the Gulf of Mexico, Great Lakes, Brazil, and Argentina.

Rates reported for transatlantic round voyages were $14,000 per day for a Panamax; $8,500 for ships of 30,000 tons; and $7,500 for 27,000 tons.

The Soviet willingness to pay rising rates spilled over into other charterers and, among other fixtures reported, a 72,000 tons vessel was fixed at $19,000 per day from the Continent to the Far East. Owners failed to fix a ship of 168,000 tons at $25,000 per day for a similar trip, however.

There was a similar strengthening in the Far East, despite the absence of a Soviet loading programme, and Panamax vessels were reportedly being fixed at $13,500 per day for transpacific round trips.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Jan.'88	Dec.'87	Nov.'87	Jan.'87
US	11,318	13,088	14,391	17,892
UK	36,396	38,556	34,194	15,342
W. Germany	70,828	72,893	70,421	56,317
Japan	77,817	75,657	72,336	46,693
Belgium	8,467	8,363	8,080	4,957
Netherlands	13,293	14,174	13,870	10,199
Italy	28,437	27,765	26,125	19,426
	Dec.'87	Nov.'87	Oct.'87	Dec.'86
France	29,634	26,457	27,685	28,428

Source: IMF

The Touche Ross Guide to Business Responsiveness:

20. Being spot on with your tactics.

There's a right tactic for every business encounter, whatever the size.

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UK NEWS

Hospitals and car industry face further disruption

BY PHILIP BASSETT, INDUSTRIAL EDITOR

STRIKE action will again hit hospitals in Britain today, but efforts were made yesterday in talks to head off further conflict in the car industry and on the ferries.

In the National Health Service, at least 17 London hospitals are expected to be affected by strikes over government health funding, with further strikes being taken in a number of towns across the country.

In addition to strikes by nurses in the Cohse health union, with support in some areas from strikers in the Nupe public employees' union and non-striking demonstrators from the Royal College of Nursing, union leaders said that thousands of other health workers would take part in lunchtime meetings and demonstrations in order to press for further funding for the health service on the eve of the Budget.

Although train drivers at London's King's Cross station have called off their 24-hour NHS sympathy strike planned for today after legal action by British Rail, dockers at Bristol are expected to strike in support of the NHS.

In the car industry, the strike at Land Rover over pay enters its fourth week today. The company, which has given a warning that it might have to reduce its two-year pay offer which it says is worth 14 per cent, if the strike is not settled soon, will be looking for any signs of a return to work. A small number of strikers last week pressed for a return to work today in the absence of any weekend developments.

General Motors' management yesterday met union leaders for talks on the industrial action now being taken and planned in the company over pension fund investments.

Electricians at the company's Vauxhall plant at Luton held an unofficial strike on Friday, and further action could follow today as a strike ballot takes place among all the plant's manual workers.

Strikes over the pensions issue at the Vauxhall plant at Ellesmere Port on Merseyside and at the AC Delco components plant at nearby Kirkby are also expected today.

However, in advance of the renewed action, negotiations took place at a Coventry hotel on the company's plans to invest about a quarter of a £214m surplus in operating companies, partly to offset previous losses.

Talks also took place yesterday at the London headquarters of the conciliation service Acas between P&O European Ferries and the National Union of Seamen aimed at settling the five-week-old strike by 2,000 ferry workers at Dover.

P&O has given a warning that if agreement is not reached on a package of redundancies and changes in working practices by tomorrow it will dismiss the seamen and issue new employment contracts.

Talks at Acas took place on Friday night, and both sides spent Saturday in discussions in Dover on the detail of the company's proposals before returning for further conciliation at Acas yesterday.

Industrial momentum exposes skills gap

By Philip Stephens, Economics Correspondent

THE RAPID PACE of output over the last year has left severe skill shortages in many regions of Britain, according to the Association of British Chambers of Commerce.

Its latest Regional Business Survey suggests that the shortages have reached "crisis levels" in London, the Thames Valley, west of London, and East Anglia, on the east coast of England.

Some 92 per cent of companies in the Thames Valley, where there is a high concentration of computer-related industries, reported problems in recruiting skilled workers, while 65 per cent found it difficult to fill office vacancies.

The corresponding figures for London and East Anglia were lower, but still suggested a severe tightening in the labour market.

Skill shortages are also appearing in areas of the country with particularly high levels of unemployment, the association says. Some 30 per cent of companies in Merseyside, in the north-west of England, for example, reported difficulties in meeting their employment needs.

The survey, which covered the views of 2,881 manufacturing and service companies in the fourth quarter of last year, confirms other recent evidence that October's stock markets' crash has had little impact on the economic outlook.

There are clear signs, however, that while domestic demand is still growing strongly, business is facing a downturn in export orders.

The association says: "The indications are that export growth is grinding to a halt in response to the strength of sterling, slow growth overseas and increasingly tough competition."

It adds that the trend underlined concern that the Government should move quickly after tomorrow's Budget to bring sterling back below DM3.00 in order to improve industry's competitiveness.

The best route would be a combination of a restated commitment to exchange rate stability and a cut in interest rates from the present 9 per cent to curb upward pressure on the pound.

Some 63 per cent of companies replying to the survey cited high interest rates as one of the main factors inhibiting their expansion.

The association says that business was particularly buoyant in the fourth quarter in Scotland, Yorkshire & Humberside, the West Midlands, East Anglia and in the North East of England.

More public water supplies contaminated by nitrates

BY LYNTON McLAIN

NEARLY twice as many people in the UK drank water polluted by nitrate fertilisers – at levels beyond those considered by the European Community to be appropriate for human consumption – in 1986 as in the previous year.

More than 1.3m people in the UK drank water in 1986 that regularly broke EC rules for standards of water for human consumption. Ten per cent more UK public water supplies were affected by nitrates in 1986 compared with 1985.

A Government report shows also the UK was the only source of sewage sludge in the North Sea and was the main source of contaminants of all types discharged directly into the North Sea. Nearly a quarter of sewage treatment works failed to meet the annual performance targets set down by local authorities for allowing the works to operate.

The latest statistics on pollution, published by the environment department, show a rising trend of increasing levels of nitrates especially where farming methods use nitrate fertilisers intensively. Pollution of some rivers in the UK is rising, with some of the biggest increases found in areas of intensive farming.

The number of groundwater sources severely polluted by nitrate fertilisers more than doubled between 1970 and 1986 and was up by almost 50 per cent in 1986 compared with 1980.

The latest figures, for 1986, show that 152 groundwater sources contained nitrate concentrations exceeding 50mg per litre, compared with about 90 in 1980 and 60 in 1970.

The concentration of 50mg of nitrates per litre is laid down by an EC directive as the maximum permissible level for water for human consumption. The level may be exceeded only if there is no public health risk. However, in 1986, 83 water supplies serving about 2.5m people in the UK contained more than 50mg of nitrates per litre on at least one day a year.

Over 50 of these public water supplies, serving 1.31m people, exceeded 50mg of nitrates per litre regularly." This compared with 49 water supplies in 1985.

In 1986, 34 surface water sources contained nitrate concentrations exceeding 50 mg per litre.

The environment department said yesterday that "water supplies which exceed 50mg of nitrates per litre are not considered to be a health risk." The Government in 1985 unilaterally "relaxed" the standard of nitrates in water and allowed it to rise to 100mg per litre, the department said.

The DoE has subsequently asked water authorities "to draw up programmes to meet the 50mg per litre target, but no timescale has been determined for meeting this."

The report by the department also reveals that a survey of homes in the UK by the National Radiological Protection Board showed that 20,000 dwellings had concentrations of naturally occurring radon exceeding 400 becquerels per cubic metre, the level at which remedial action should be taken. Levels were especially high in Devon and Cornwall.

"Digest of Environmental Protection and Water Statistics No 10." HMSO Price £8.

Young unemployed offered computer jobs

BY CHARLES LEADBEATER, LABOUR CORRESPONDENT

A DUTCH computer services company is to offer long-term unemployed young people an innovative, year-long computer apprenticeship, with the guarantee of a permanent job at the end.

Microlife, a specialist in training, consultancy and management of IBM systems, has based its plan on a scheme in Holland in which 50 unemployed young people have passed through a one-year contract, into a permanent job with the company.

The aim of the scheme is to train the recruits to manage the flow of information through IBM mainframes.

The project is the idea of Mr Adrie Reinders, the company's owner, who thought up the scheme after his two teenage sons were unemployed for several months.

Mr Reinders said that recruitment of young people in the UK would be exclusively among those unemployed for between one and two years.

Initially the recruits will work on a 12-month contract, with a salary of £6,000 in peripheral areas of data processing centres, which Microlife services for clients.

The incentive for the young people to work for a year in these areas will be a set of 12, three-day training courses, as well as other training programmes in their own time, which should turn them into relatively skilled computer operators, with a salary of about £12,000.

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Reuters faces challenge in financial data services

BY ALAN CANE

MARKETING agreements between traditional financial data vendors and a new generation of computer hardware and software companies are intensifying competition in the financial information services marketplace.

The latest deals seem to be closely modelled on, and directed at, the aggressive business strategy adopted by Reuters, the UK-based business information group, which is the world's largest electronic publisher.

Among recent developments is the joint marketing agreement between Wang Financial Information Services, a subsidiary of the US computer and office automation company, and Apollo Computer, a manufacturer of powerful technical workstations, under which the Apollo machines will be used as the basis of the Wang subsidiary's high-performance trading system.

Wang Financial Information Services provides market information and stock and futures prices through a system called Shark. It also provides modelling and analysis software which needs the processing power and high-quality display screens which are features of Apollo workstations.

Together, Shark and Apollo should make it possible for customers to monitor past and present market performance, review fundamental data and gain access to financial news services.

However, only six weeks ago Reuters announced that its subsidiary, Rich of Chicago, which builds dealing room systems, had agreed to use workstations made by Sun Microsystems, a fast growing US microcomputer manufacturer which Apollo regards as a principal competitor.

Reuters-Rich intends to exploit the power of the Sun machines to give its customers a competitive edge in analysing and modelling market information.

Telerate, a leading US-based financial data vendor, has also announced recently a joint marketing agreement. The deal with Bermuda-based Intex Holdings is designed to develop an automated market system for, in particular, out-of-hours trading on futures exchanges. Such a system would be a precursor to round-the-clock electronic trading and signal, potentially, the end of the open outcry system.

These fears were raised last October when Reuters announced it had sealed an agreement with the Chicago Mercantile Exchange, under which an automated screen based system being developed by Reuters would be used by the exchange during the hours of the day that its trading pits were closed.

Intex agreed that the intention was to take on Reuters and the CME "head-to-head" to market automated futures trading systems.

Intex has had a chequered history. It was established as the world's first wholly electronic futures exchange in 1984 but proved unsuccessful, although its supporters argue it was years ahead of its time.

Under a new president, Mr Tom McKiernan, it has changed direction from an electronic exchange to a market-trading software house.

Reuters was last week unruffled by the new competition. It said it was studying the implications closely and, while it was never complacent about competition, it felt it was comfortably ahead. It was flattered its challengers agreed that the Reuters road was the right one to travel.

In a separate development, it was announced that Wang will market Apollo workstations under a multi-million dollar original equipment manufacturer (OEM)agreement.

OEM deals of this kind benefit manufacturers with a weakness in their product line and small companies with good products but limited marketing and distribution channels.

Industry analysts believe that Wang, a leading minicomputer vendor with special capabilities in word processing, has in recent years failed to keep abreast of technological developments. It is understood that Wang will incorporate Apollo workstations into technical publishing systems.

Accounting change may boost profits in insurance

By Richard Waters

STANDARDISED accounting by insurance companies, as proposed by European Community, would result in higher reported profits for some UK companies in the sector, accounting experts said last week.

Their comments follow publication by the Department of Trade and Industry of a consultative paper on an EC draft directive on insurance companies' accounts. The directive would have two main impacts in the UK.

First, a requirement for insurance companies' accounts to show a true and fair view would force life companies to report a higher figure for profits. At present, their assessment of the surplus in their life fund is calculated using actuarial methods rather than accounting concepts of profitability.

Actuaries take a more conservative view of future liabilities, claim the accountants.

Introducing an accounting measure of profits would give "scope for quite a large increase in profits," said Mr Jeremy Dickson, a partner with accountants Deloitte Haskins & Sells.

However, Mr Chris Swinson, a partner at Binder Hamlyn and chairman of a European accountants' committee on insurance companies, warned that there was scope in the directive for companies to use provisions to smooth profits between years. These would amount to "secret reserves," which are already specifically permitted for banks under a separate EC directive.

The second important change is that non-life companies would be forced to include all realised investment gains in their profit and loss account, while gains that had not been realised would be shown as changes in reserves. This rigid division is not observed in the UK.

For instance, Eagle Star channels unrealised profits into its profit and loss account over five years, smoothing its reported profits. There is no consistency between companies in the treatment of realised profits: leading companies split evenly between those that take them to reserves and those that place them in the profit and loss account.

Proposal for EC Council Directive on the Annual Audited Accounts and Consolidated Accounts of Insurance Undertakings. Department of Trade and Industry. Comments by April 15.

Tougher sanctions on accountancy rules called for, Page 8

British Telecom to buy stake in Belize company

By David Thomas

BRITISH TELECOM is to buy 25 per cent of Belize's telephone and telex services. The move is a sign of the privatised British company's determination to enlarge its international operations.

The purchase will also end a wrangle between BT and Cable and Wireless. The rival British communications companies have recently clashed in several small countries where C and W has traditionally helped to run telecommunications.

The Belize Government decided to buy the local assets of C and W, and to put a new company called Belize Telecommunications in charge of running the Central American country's domestic and international telecommunications services.

C and W declined an offer from the Belize Government of a 25 per cent stake in Belize Telecommunications. The Belize Government has now decided to take a 51 per cent stake in Belize Telecommunications and sell 25 per cent to BT.

Ladbroke wins off-track betting contract in US

BY NIKKI TAIT

LADBROKE RACING, part of the hotels and leisure group, announced yesterday that it had been awarded the sole licence to conduct off-track betting operations in the US state of Wyoming.

According to Ladbroke, the licence was won against competition from another UK betting group, as well as a number of American interests. It is the first off-track betting licence awarded in the US to a UK company.

In many parts of America, off-track betting remains illegal. However, the racing industry is opening up and Ladbroke describes its Wyoming licence as "a breakthrough."

It plans to open cinema-style facilities in hotel and entertainment centres, which will show live racing transmitted by satellite. Eight initial outlets have been lined up.

Construction output up

BY LYNTON McLAIN

OUTPUT IN the construction industry in Britain last year was 8 per cent higher than in the previous year.

Output rose by 4 per cent in the fourth quarter last year compared with the third quarter and by 9 per cent compared with the fourth quarter of 1986.

The provisional figures published at the weekend by the Environment Department are based on the value of construction work at constant 1980 prices.

New private housing work in the fourth quarter of 1987 was 1 per cent lower than in the previous quarter, but 12 per cent higher than in the same period a year earlier. New work in the public housing sector was unchanged in the latest quarter compared with the previous quarter but was 9 per cent higher than in the fourth quarter of 1986.

John Hunt on political heart-searching at a Southport conference

Greens reassess their party roots

VEHICLES BEARING slogans such as "give peace a chance", "acid rain kills" and "the Greens are gathering" appeared suddenly in the streets of Southport, Merseyside, over the weekend.

About 300 members of the 7,600-strong Green Party were gathering in this pleasant seaside resort for their annual spring conference.

Inside the Floral Hall the inevitable vendors of party literature jostled with stallholders selling "cruelty-free" aftershave and bubble bath and a 100 per cent organic stone-ground flour.

The contrast with the podium ranters at the annual conferences of the two major parties which are held at nearby Blackpool could not have been more marked. Discussion groups sat gently murmuring around large tables as peacefully as participants in a vicarage whist drive.

There was some wrangling during the opening discussion on standing orders, but members were quickly diverted into a friendly "get-to-know-you" session.

The general debates had the high moral tone which is characteristic of the Greens, but realism kept breaking through. One group which wanted to remove a reference to "punishment" of law breakers and replace it with "treatment of those who fall foul of the law" was indignantly opposed by a man who had been burgled and mugged repeatedly over the past year.

However, this mild appearance can be deceptive. Members showed their teeth by passing an emergency resolution for "non-violent direct action" to prevent a consignment of nuclear waste reaching the Sellafield reprocessing plant next week.

The conference also passed a motion to launch a campaign of civil disobedience against the new poll tax and to withhold payment of the tax.

The Green Party, like all the opposition groupings at the moment, is going through a period of heart-searching and reassessment. Born as the Ecology Party in the early 1970s, it changed its name in 1985. This was two years after the international heroes of the movement, Die Grunen, the West German Greens, made their spectacular breakthrough to win seats in the Bundestag for the first time.

However, unlike their German counterparts, who now have 44 seats in Bonn, the British party can only boast 80 seats on parish

To break the electoral impasse some members advocate closer links with 'radical non-nuclear' Liberals

councils and three on district councils.

The Italian Greens won 13 parliamentary seats at their first attempt at a national election and there are well-established green parties in Finland, Holland, Belgium and Austria.

One of the reasons for the disparity is that the continental parties have the benefit of proportional representation. The British Greens say that at the last general election, when they put up 122 candidates, their share of the poll – 90,000 votes representing 1.3 per cent of the total – would have entitled them to seats at Westminster under proportional representation.

In an effort to break out of this impasse, members of the Green Party are starting tentative discussions with "radical Liberals" in the newly-created Social and Liberal Democrats and with the hard left both inside and outside the Labour Party. These are two separate initiatives and there are considerable differences of opinion within the Green Party over which is the right course.

Nor is it clear what the Greens expect to gain from these overtures. At the moment it is merely proposed to open a dialogue on matters of common interest. Nevertheless, the Greens do see an opportunity for further expansion among radical elements of the Labourites and anti-merger Liberals who are disenchanted with policy revision under Mr Neil Kinnock and Mr David Steel, the party leaders.

Mr Tim Cooper, co-chairman of the Green Party, has launched Green Voice, an organisation advocating closer links with "radical, decentralist non-nuclear" Liberals. It has already held a meeting at which Mr Simon Hughes, SLDP MP for Southwark and Bermondsey, and his party's spokesman on the environment, hinted that he would be prepared to stand as a Green-Liberal candidate.

Later this month a conference between the two sides will be held at Leeds University and will be attended by Mr Hughes and Mr Michael Meadowcroft, the former Liberal MP, among others. Mr Cooper said he would welcome local electoral agreements with sympathetic Liberals. He says: "We are talking values. Green politics is a logical extension of radical liberalism."

However, Mr Tony Greaves, the Liberal campaigner who is on the radical wing of his party, was cautious about closer links with the Greens after speaking at a fringe meeting at the conference.

He agrees that there are shared values but found the event too reminiscent of the undirected enthusiasm seen at the meetings of the Young Liberals in the 1960s and early 1970s.

"They have no strategy for achieving any level of electoral power. They have to prove that they can pull votes before it is worthwhile doing any deal with them," he says.

Ms Penny Kemp, chairwoman of the Association of Socialist Greens, is behind the overtures to the left. A conference will be held in May "to open a dialogue between Greens, Socialists and other allied radical movements."

The sponsors include MPs who are leading members of the hard left Campaign Group, such as Mr Tony Benn and Mr Jeremy Corbyn. Mr Peter Tatchell, the left winger who unsuccessfully fought the Bermondsey by-election, will also be attending.

Ms Kemp says: "One of the reasons for the conference is that there are a lot of disillusioned socialists who do not think the traditional Labour Party is socialist any more. A lot of them are looking for alternatives."

Will it not be seen as an attempt to poach members from the Labour Party? "That is for people to make up their own minds," she says.

On the other hand, Mr Cooper is distinctly cool towards the idea of talking to people like Mr Benn. He is suspicious of Mr Benn's record on nuclear power as Energy Minister and says that Mr Benn has never favoured proportional representation.

Meanwhile, the Greens are cheerfully pushing ahead with plans to fight for the first time all 78 seats in the next Euro-elections. Two MEPs, Mr Jacob von Uexkull of Germany and Mr Paul Staers of Belgium, were at Southport to offer advice.

In spite of their difficulties, the British Greens do radiate an unquenchable optimism based on the belief that the tide of history is flowing their way. This was epitomised by one member who told the conference that he had founded the Abercorn Place branch of the party last year with himself as the only member. "Since then we have had a 100 per cent increase in membership – my wife has joined," he said.

David Fishlock on whether nuclear establishments are a health risk

Cancer cluster questions gather

COULD the science community be barking up the wrong tree about radiation and leukaemia clusters? The question is put by Mr Roger Clarke, head of the Government's official watchdog agency on public exposure to radiation.

The clusters are incidences of the disease which are higher than can be accepted as normal. The latest reports from Mr Clarke's agency, the National Radiological Protection Board (NRPB), suggest that research into the disease rather than into radiation may give the answer.

The board has been trying for several years to establish if there is any link between leukaemia clusters and Britain's nuclear activities, past as well as present.

Independently, many academics have pursued the same quest. They include members of a committee set up to advise the Government's chief medical officer, Dr Donald Acheson.

Leukaemia clusters have been found near Aldermaston, Berkshire, Dounreay, Highland, and Sellafield (Windscale), Cumbria. They are all long-established nuclear units.

Leukaemia has also found among veterans of Britain's atmospheric nuclear weapon tests in the Far East.

For some, the association is clear. Radiation is known to cause leukaemia and the disease is found near nuclear activities. Ergo, radiation is the cause. But, says Mr Clarke, a physicist and past-president of the Society for Radiological Protection, the figures do not fit by some very big margins.

Take Sellafield, Britain's biggest repository of radioactivity for nearly 40 years. Medical records show that, in the locality, there have been four fatal leukaemias in people aged under 20 where national statistics say there should have been only 0.5.

Even by making pessimistic allowances for Sellafield's discharges since 1950, including the big Windscale fire 30 years ago, Clarke says this radioactivity could account for only 0.016 of each leukaemia case. The average risk to an individual works out at one in 750,000.

Has the NRPB failed to measure some radioactive agent? Has it overlooked ways in which radioactivity may be reaching people?

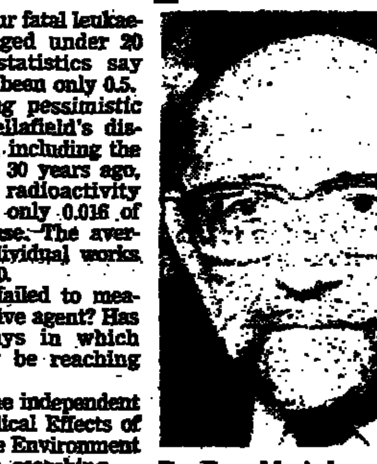
For four years the independent Committee on Medical Effects of Radioactivity in the Environment (Comare) has been searching – so far without success – for pathways that Mr Clarke's scientists may have missed.

The NRPB itself has looked again at plutonium, the agent most often criticised. This time it has studied autopsy data on people dying near Sellafield. It found that previously it had been overestimating how much plutonium they might have picked up. Most died from heart disease.

Mr Clarke acknowledges that one can always postulate an individual who gets an extremely high dose of plutonium. "Let us say one child who eats vast quantities of silt, lives on the beach and eats only winkles."

That child might receive 100 times as much as the average dose. Even so, the risk to the child would still be only one in 750 and there is no way that figure could apply to the entire local population.

Dr Martin Gardner, professor of medical statistics at Southampton University and a member of Comare, has recently shed new



Dr Donald Acheson: advice about leukaemia

light on the Sellafield leukaemias. He traced 1,546 schoolchildren born between 1950 and 1980 who had attended school in nearby Seascale, but had not been born in the area. Statistically, 0.8 of a case would be expected, and he found no case of leukaemia.

But among 1,065 schoolchildren born in Seascale, five leukaemias were found, including one in a child who had moved away. "So the excess only appears in children born in Seascale," says Mr Clarke.

Meanwhile, at Thurso near the Dounreay nuclear establishment, the NRPB was asked to assess doses and risks in an area where five leukaemias were reported between 1979 and 1984 within 12.5 kilometres of the plant, in a child population three times the size of Seascale's.

Dounreay has similar activities to Sellafield but on a smaller scale. Radioactive discharges generally are 10 times lower. The estimated exposure to Dounreay's radiation is less than 10 per cent of that which we all continue to receive from fallout from the long-abandoned atmospheric weapons tests.

But Mr Clarke points out that the highest incidence of leukaemias occurred among a group of 5,633 participants who were not present during any big test.

The common factor in all these studies is not radiation but leukaemia, says Mr Clarke. Backed by Sir Richard Doll, director of the Imperial Cancer Research Fund's unit for cancer statistics in Oxford University, Mr Clarke is kindling new interest among scientists in leukaemia rather than radiation. Sir Richard is collaborating with the NRPB in the bomb test veteran studies.

Other factors have been implicated in causing leukaemia, he says. They include genetic factors, certain drugs, chemicals, and infectious agents such as viruses. Socio-economic status has an influence, too. The higher social classes suffer more leukaemia.

The British cancer charities, main agents of research into the causes of cancers, have begun to respond. A committee headed by Sir Walter Bodmer, research director of the Imperial Cancer Research Fund is to try to resolve the puzzle of Britain's leukaemia clusters.

The Risk of Childhood Leukaemia near Nuclear Establishments. NRPB-R215. Stationery Office. £5; Mortality and Cancer Incidence in UK Participants in the UK Atmospheric Nuclear Weapon Tests and Experimental Programmes. NRPB-R214. Stationery Office. £8.

Electricity boards take up challenge

Maurice Samuelson looks at privatisation's effects on power schemes

ONE EFFECT of the Government's electricity privatisation proposals will be to blur the division between the generating and retail side of the industry.

The Central Electricity Generating Board is expected to be broken into two separate generating companies. Yet the private successors of the 12 area distribution boards, which sell electricity in England and Wales, will also be encouraged to provide 20 per cent of their power needs independently.

The area boards, for so long regarded as little more than the trade counter of the mighty CEGB, are stimulated by this challenge, especially as it coincides with the CEGB losing control of the central transmission system – the National Grid.

The boards, nostalgic for the days of the rugged local power companies which pioneered electricity supply in the 1920s and 1930s, relish the prospect of becoming producers as well as suppliers of power in their localities.

They are not, however, nostalgic for the huge national surplus in generating capacity which was the main drawback of a fragmented industry. Today, there is a looming shortage of generating plant throughout the country, which could cost more than £20bn to replace.

The role of the area boards' successors will be to ease this shortage by exploiting cheap, marginal plant outside the organised generating industry.

This is the route being actively explored by the East Midlands Electricity Board, whose chairman, Mr John Harris, says that up to 20 per cent of his 2m customers' requirements could be met by the new generators, whose advent should help to reduce costs.

His confidence is based on local research indicating that the 20 per cent level could be achieved by the end of the 1990s from existing sources and prospective schemes, apart from what could be obtained if smaller coal-fired power stations in the EMEB area were handed over by the CEGB.

Although the East Midlands board could itself become a generator, it would not be in a hurry to do so. Instead, it would initially concentrate on encouraging competition among outside suppliers and would only consider investing directly in plant if alternatives were not available.

The EMEB area is a large inverted triangle stretching from Derbyshire to the east coast in the north, down to Buckinghamshire in the south. Within the area, some five schemes have been identified as possible sources in the mid-1990s.

They represent about 20 per cent of the EMEB's current peak demand of just under 4,300MW. Even if some of them fail to materialise, others might take their place if the climate were right.

Two are large combined heat and power (CHP) projects, which supplement sales of electricity with income from waste heat deliveries to factories and homes. These and other schemes are based on a mixture of fuels, ranging from gas, oil and coal to landfill gas, coke-oven gas and refuse incineration.

The biggest is the Leicester CHP project run by Leicester Energy, an 11-member consortium, embracing private companies, Leicester City Council and the electricity authorities. Based on a CEGB gas-turbine power station, the £110m project would contribute 240MW of electricity and heat homes and factories in central Leicester.

The consortium is trying to tie up a long-term gas supply contract, the biggest of its kind in the country, with British Gas. It is also negotiating with independent North Sea operators. If the protracted negotiations fail, the consortium might opt for oil or coal.

One possible area of friction is that the consortium includes both the area board and the CEGB which, under the draft privatisation plans, could become competitors for local electricity sales.

The EMEB's other CHP scheme is at Corby. Designed to raise power and steam from urban refuse, it would produce 24MW of electricity. EMEB has been trying unsuccessfully to secure a long-term supply contract with Manchester. After failing to secure the Mancunian garbage, it is ready to consider refuse from somewhere else.

Other sources of electricity studied by EMEB include the private industrial power stations in the vicinity. Their owners include British Coal, Courtaulds, British Sugar, Boots and Players in Nottingham.

Privatisation could also be the spur to encourage a number of innovative power projects, capable of generating up to 500MW. One project studied by EMEB is for combine-cycle gas-turbine plants to generate 80MW to 500MW. Such plants include an auxiliary turbine driven by the waste heat from the primary gas turbine. EMEB is also studying new coal-fired technologies, capable of burning lower-grade coals more cleanly than present methods.

In addition, according to EMEB, a US-based company has shown interest in building a series of 50MW plants to burn coal-tip waste at East Midlands collieries. The company is said to have built several of these plants in the US.

Lloyd's brokers set up company to cover themselves

BY ERIC SHORT

A NUMBER of Lloyd's insurance brokers have set up a mutual insurance company, The Griffin Insurance Association, to provide their own professional indemnity insurance.

This move reflects growing dissatisfaction among brokers with the steeply rising cost of errors and admissions insurance cover which is not reflecting their own claims experience.

They are following professionals such as accountants and solicitors who have set up their own liability insurance cover because the cost from normal insurance sources was rising rapidly.

The Griffin will be managed by Tindall, Riley & Co, a specialist manager in such liability mutuals for other professions. It will offer equivalent cover to that currently provided by the insurance market up to a maximum aggregate of £20m per broker.

Already some 20 brokers, with a combined brokerage income of nearly £100m, have given legally binding commitments to insure with Griffin and others are expected in the coming weeks.

Entry will not be automatic. Applicants' broking operations will be vetted and they will be required to take part in a continuing risk management programme aimed at reducing the potential for future errors and omissions claims.

The company aims to stabilise members' insurance costs rather than undercut the market. In the longer term premiums will relate directly to the claims experience of members as a whole.

Labour rejects non-payment of Scottish poll tax

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

THE LABOUR Party in Scotland endorsed at the weekend a campaign to frustrate the implementation of the community charge in Scotland, but without resorting to illegal means.

The party – easily the biggest in Scotland – aims to "use the complexity of the system to undermine it," Mr Donald Dewar, the shadow Scottish Secretary, said.

At its annual conference in Perth, delegates defeated a resolution proposing illegal action to counter the poll tax. But the party left open the possibility of future illegal action by endorsing a plan to hold a special conference in the autumn to re-consider non-payment of the tax.

The question of how to oppose the community charge was by far the most contentious at the three-day conference. The party was encouraged by a Mori opinion poll published last week in The Scotsman showing that 75 per cent of Scots asked (including 40 per cent of Conservatives) disapprove of the poll tax.

It also showed that 42 per cent of those asked would back a campaign of non-payment of the poll tax, against 44 per cent who disapproved of the idea.

In Saturday's debate Mr Dick Douglas, MP for Dunfermline, who is normally considered a moderate, openly defied Mr Neil Kinnock, the party leader, who has condemned illegal action against the poll tax. "Kinnock said pay; I say don't," he shouted.

Other speakers pledged their refusal to pay the poll tax and, like Mr Douglas, were strongly applauded. Only a minority of speakers warned that non-payment would starve local authorities of funds, imperil the jobs of council workers and lead to people having their property seized by bailiffs.

Dick Douglas: defied Kinnock with pledge against poll tax

But a motion calling for mass refusal to pay the tax was defeated on a show of hands, and one calling for the party to oppose the poll tax "by all means short of illegality," was passed by a two-to-one majority on a card vote, reflecting the voting strength of the Transport and General Workers Union, which had made clear that it opposed illegality.

The Labour Party will now campaign for Scots to impede the process of registering for the poll – due to come into effect in Scotland next April – by returning registration forms without filling them in. The registration forms are addressed to "the responsible person" in each household but the accompanying letter states: "If for any reason you are not a 'responsible person' please let me know and return the form to me without completing it."

Mr Dewar said: "What we are trying to do is to offer a real way of fighting now and not just waiting for the tax to come into effect."

Granny generation seen as go-getters

By Fiona McEwan

THE GRANNY generation has changed, but advertisers, marketeers and manufacturers have failed to recognise the fact, according to a study.

The image, it suggests, of low-spending housebound pensioners, huddled in slippers in front of the television, should give way to one of go-getters and high spenders.

Today the over-50s in Britain are the lucky generation, according to Holmes Knight Ritchie, the advertising agency which conducted the study. This is largely due to the rejuvenating cocktail of early retirement, occupational pensions and improved life expectancy.

With an expected 30 years ahead of them, which is as long as the average adult life in formal employment, the over-50s are a valuable market for British business.

Yet, in consumer terms, they are the forgotten generation in the UK. They are ignored by manufacturers, marketeers and overlooked by much of the media, according to the unpublished report The Missed Opportunity. US companies, by comparison, are far more conscious of the older consumer market.

"Very few companies have woken up to this market opportunity," said Mr Alasdair Ritchie of HKR.

The few companies which have tumbled to this potential goldmine include Saga Holidays, which specialises in holidays for retired people, and Honda cars, which sells strongly to the over-50s.

The HKR study is based on national group discussions, several hundred interviews and research from the Social Futures Unit, an independent marketing and social consultancy.

Instead of retirement, read re-direction, it says, drawing on the fact that many of today's over-50s have chosen early retirement. HKR calls them vocational pensioners.

The over-50s, having lived through the war, austerity and a period of immense change, do not see themselves as senior citizens or pensioners, says social anthropologist Mr Clive Mira-Smith of SFU.

Having missed out on much of their formal education, they are keen to catch up, hence the popularity of learning and activity holidays for this age group.

According to HKR, the mature individualists, as it calls the over-50s, are driven by a strong sense of values, a Protestant work ethic, and the search for value for money.

This does not necessarily mean the cheapest product; often the reverse. They are willing to pay premium prices for quality. They are also wary of hype, but warm to genuine "firsts."

Statistics, drawn from official sources and forecasting bodies, such as the Henley Centre, underline the older group's substantial purchasing power.

The youth market of 16 to 24 year olds is estimated to have about £30bn a year of disposable income.

The family market, aged 25 to 45, is worth about £112bn a year in terms of disposable income, but this is offset by the group's mortgage commitments and children, which act as a drain on its discretionary income.

By comparison, the over-50s, which make up one-third of the UK population, are financially freer, with an annual disposable of about £108bn. Mortgages are non-existent or negligible; children are financially independent; endowment policies mature; they inherit £8bn a year; and they own 70 per cent of all savings.

Heather Farmbrough on a controversial but successful capital venture scheme

Growing BES celebrates many happy returns

TOMORROW'S Budget marks the fifth birthday of the Business Expansion Scheme. While critics may attack it as little more than a tax dodge to make the rich richer, it has nevertheless been one of the most successful government venture capital schemes.

In the first four years, £502.7m was invested in 883 companies, and the trend has continued upwards since then. Last year, 15,000 individuals invested in the scheme, a striking number of whom were QCs, according to research conducted by the Labour Party. Investors have been lapping up the flood of recent issues which are a regular feature of this part of the tax year.

The prospect of tax cuts, particularly for higher earners, has undoubtedly fuelled interest. The gearing effect of the tax relief available makes the scheme most attractive to those in the top tax brackets, although only about 30 per cent of subscribers pay at that rate.

Apart from its attractions as a tax-break, the scheme appears to have met its original objectives, with the Treasury professing itself pleased with it. According to Sir Geoffrey Howe, the Chancellor in 1983, the aim was to "transform the position of unquoted trading companies seeking outside equity and to encourage wider share ownership," while concentrating on those companies "which do not have ready access to outside capital."

BES was an extension of the Business Start-Up Scheme, introduced two years earlier to "encourage enterprise and risk-taking and specifically to channel investment into smaller businesses."

Figures for the 1985-86 financial year show the popularity of the service sector as a home for investment, attracting 44.5 per cent of all money raised for BES that year. Manufacturing accounted for 23 per cent, while construction represented 6.6 per cent.

Since then, a higher proportion appears to be going into construction and property development. In 1985-86, the most recent year for which figures are available, 63.7 per cent went to businesses in the south-east, compared with only 5.1 per cent in the Midlands and 11.2 per cent in the north.

The growing popularity of issues such as property development and hotels has opened the scheme to some criticism. A property developer can simply wind up the company after five years, sell off the assets and pay back shareholders. Furthermore, property investment is often a hedge, which conflicts with the scheme's objective of raising finance for riskier ventures.

"Why should there be tax loopholes for property-based schemes?" asks Mr Gordon Brown, a shadow Treasury spokesman. "Is there any justification in developing private hospitals when there are inadequate grants for industrial developments?"

SURVIVAL RATE OF BES COMPANIES*

Number of companies	883
Amount invested	£502.7m
Number of failures	125
Failures (£ invested)	£29.3m
% failures (number)	14.2%
% failures (£ invested)	5.8%

* First four years Source: BES Investment Research

He also argues that BES is an inefficient and expensive way of creating jobs compared with other methods such as regional aid. Each BES job, he estimates, costs £12,500 to create, while BES tax relief cost the Exchequer £85m last year.

The Government would perhaps argue that job creation has never been the scheme's primary purpose. A more serious objection is that a natural preference by investors for "safer" issues backed by assets – such as hotels, property development and secured construction – may have created an over-easy capital market for these companies. "Any secured contractor seems to think the BES is a soft touch for raising money," said one sponsor.

But has the scheme enabled companies to raise funds which would not otherwise have been available?

According to Mr Charles Fry, of sponsors Johnson Fry, the answer is yes. "For instance, CC Conversion and Citigate – both property developers – were run by good young entrepreneurs who would have found it difficult getting £5m from a merchant bank," he says.

BES start-ups often fall between two stools: too small and often too young for the stock market, yet too big for the banks.

Nevertheless, heavy capital requirements by some companies have led to repeated calls for finance. One garden centre is seeking a further £10m on top of the £20m it has already raised. As one sponsor asked: "Why couldn't they go to investors in industry (3i), the venture capital group owned by the Bank of England and the clearing banks?"

So far, there has been little talk of BES performance, in contrast with the enthusiasm of sponsors and funds for mailshots for new issues. But performance will come under increasing scrutiny as nearly 250 companies approach their fifth birthday.

This means their investors can sell their shares without losing their capital and income tax breaks. So a number of companies will be looking for exit routes, such as a quotation on the third or Unlisted Securities Market.

Only four BES companies have so far taken advantage of the rule which enables them to come to the third market after three years without prejudicing tax relief. But a number of smaller companies are likely to be taken over simply because they are too small for quotation.

The failure rate of BES companies is surprisingly low, given the inherently youthful and risky nature of the companies involved. Out of the 883 issues between 1983 and 1987, 14.2 per cent have failed, according to Mr Stephen Rowe, of BES Investment Research.

Of these, 263 were prospectus issues, which raised £342m from private investors, while BES funds invested in the remaining 630 companies, worth £160.7m. The failure rate is much higher among companies invested in by BES funds than the prospectus issues, at 18.1 per cent and 4.9 per cent respectively.

This has less to do with the superior selection skills of the private investor than the fact that the funds have tended to invest in a wider range of smaller, higher-risk ventures. There were also more failures in the early years when wine, agriculture and high technology issues were in vogue.

The overall success of the BES does not mean there is no room for improvement. More could be done to tackle the rising tide of secured contractors, to encourage local investment and attract funds to enterprises which might fulfil more of the community's requirements. But BES will still enjoy a happy birthday.

National Savings misses out on investment trend

BY ERIC SHORT

PRIVATE investors may have switched from equities to deposit-style savings following the October crash. But National Savings is not fully benefiting from this trend.

Figures issued over the weekend show that the net contribution to government funding by National Savings in February amounted to just £200.2m – £87m less than in January

Since last October, the amounts invested in National Savings have shown an improvement. But the inflow has not made up for the net outflow in National Savings ahead of the October crash.

Total net funding for the 11 months of the financial year to end-February amounted to £1.84bn, compared with £3.08bn for the corresponding period in the previous year.

Income bonds retained their popularity with a net inflow in February of £154m bringing the total invested in these bonds to £1.29bn in the 11 months.

The Investment Account had a positive cash inflow of £87.5m, while both fixed-interest and index-linked National Savings Certificates had net outflows of £44.6m and £44.5m.

Otherwise, there was little interest by investors in any other National Savings products.

National Savings has expanded its promotional activities into direct mail-shots in its campaign to re-awaken interest in its products. It is sending out nearly 300,000 brochures of its Yearly Plan – a guaranteed, tax-free investment currently offering 7 per cent net – to what it says are "affluent addressees." A mail shot last Autumn promoting Premium Bonds attracted £20m.

Price-fixing cases in court

BY CHRISTOPHER PARKES, CONSUMER INDUSTRIES EDITOR

THE CASES of 16 Scottish estate agents, 50 ready-mixed concrete companies, 10 polyester resin makers and half-a-dozen Irish Sea ferry operators come up in the restrictive practices court this week.

Mr Justice Warner will hear allegations of price fixing, collusive tendering and other restrictive agreements from Sir Gordon Borrie, director general of fair trading.

At the two-day hearing, starting this morning, Sir Gordon will ask for court orders declaring the agreements against the public interest.

In any cases where the companies do not give undertakings to the court, he will seek orders forbidding them from making similar deals in future.

The Office of Fair Trading said it did not expect any of the cases to be defended.

Most relate to pricing cartels which have already been dissolved, and the hearings should bring to a formal end cases which were opened when the alleged agreements were first challenged.

Some of the concrete cases date back to the 1970s. Earlier hearings have already dealt with almost 200 agreements between concrete suppliers.

In the proceedings against Northern Ireland ferry companies, it is alleged that the six businesses involved made 13 price-fixing agreements.

Mail order protection scheme revised

BY MAGGIE URRY

THE Periodical Publishers Association has launched a revised mail order protection scheme (Mops).

Under the scheme readers who send money to an advertiser but do not receive the goods because the mail order company has gone bankrupt or into liquidation, can get a refund from the publisher.

Mr Tubby Pitcher, director general of the PPA, said the scheme was a significant step forward in magazine consumer protection.

The scheme has been widened following an investigation into Mops by the Office of Fair Trading. The OFT said the cash-with-order market was worth £400m a year, of which 36 per cent was not covered by Mops schemes.

The OFT estimates that about £4m is lost by customers each year and of that about 10 per cent is covered by one of the Mops. It has proved impracticable to insure this risk.

The PPA has extended its scheme to cover bound-in, but not loose, inserts and boxed classified advertisements. The time limit for making claims has been extended to three months from the publication date.

Members of the PPA are responsible for vetting advertisers taking space in their publications. They should ask advertisers for detailed information and to sign personal undertakings.

The Post Office is working on a scheme to cover direct mail advertisements.

Northern Engineering wins Hong Kong deal

A BRITISH electrical engineering company has secured a £25m-plus order from Hong Kong.

Tyneside-based Northern Engineering Industries is to build a 350-megawatt turbine generator for the Lamma Island power station.

The contract, won against US, Japanese and Swiss competition, will provide more than three years' job security for the 3,000 workers at the Newcastle plant.

UK NEWS

STANDARDS SURVEY LIKELY TO LEAD TO FIRST MAJOR OVERHAUL IN 18 YEARS

Tougher sanctions on accountancy rules called for

BY RICHARD WATERS

TOUGHER SANCTIONS are needed to make companies comply with accounting standards, according to most of the submissions to a group set up to consider how standards are set, monitored and enforced.

There is little agreement, though, on whether there should be a change in the law to force compliance or whether the Stock Exchange should do more to ensure accounting rules are followed.

The submissions are part of a process that is likely to see the first major overhaul of the Accounting Standards Committee, which was set up 18 years ago in response to a number of accounting scandals in the late 1960s.

Although no particular scandals have prompted the overhaul, there is general agreement in accountancy and corporate circles that the ASC's authority has waned.

It is slow to deal with new accounting issues such as off balance sheet finance or how companies account for complex financial instruments, and it has no sanctions against companies that do not follow its rules.

Supporters of a change in the law to reinforce standards include Deloitte Haskins & Sells, Coopers & Lybrand, Arthur Andersen, Ernst & Whinney, Peat Marwick and the Chartered Association of Certified Accountants.

Opinions on how the law should be changed differ considerably. Deloitte called for legal backing for all standards except those which have not attracted sufficient support. Arthur Andersen said that the requirement for accounts to give a true and fair view could be linked in law more closely with the need to comply with accounting standards, though this would not amount to statutory backing.

Peat Marwick, on the other hand, said the law should require companies to disclose and justify any departure from standards.

Supporters of a non-statutory system include Price Waterhouse, Touche Ross, Arthur Young, the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Management Accountants.

They generally agreed that the Stock Exchange should enforce the compliance of listed companies by refusing to accept accounts which do not comply with accounting standards.

"The Stock Exchange has been reluctant to suspend or to de-list companies for non-compliance with accounting standards on the grounds that it would be the innocent third party, the shareholders, who would be penalised. On the other hand, in the US the possibility of suspension or delisting seems to act as a deterrent," said the ICAEW.

The Stock Exchange declined to comment on this, but said it is willing to discuss any changes in the enforcement system that require its backing.

The structure of the Accounting Standards Committee has also been discussed. A number of commentators called for a two-tier body to separate the functions of setting standards and monitoring and enforcing them.

The monitoring body would be drawn from a wide variety of City and business interests, and would have the backing of one or all of the Bank of England, the Stock Exchange and the Department of Trade and Industry.

Views about its role differ. According to the ICAEW, it would report each year on the effectiveness of the accounting standards system and would comment on the accounts of individual companies which had failed to comply with standards.

The Chartered Institute of Public Finance and Accountancy said that it should also identify priority areas for new standards and approve the ASC's work programme. Coopers and Arthur Young also said that it should operate an "accounting court" to judge complaints of non-compliance.

There is more agreement about the standard-setting part of the system. This body should, be given greater resources, enabling it to tackle accounting issues more quickly than the ASC.

It should also be able to issue standards without requiring the support of each major accountancy body. This would prevent the sort of delays which resulted when the Institute of Chartered Accountants in Ireland resisted the introduction of the standard on leasing, SSAP 21.

SECOND PARTIAL REDEMPTION NOTICE

To the Holders of

General Foods Capital Corporation

12% Notes Due April 15, 1989

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the above-described Notes, Morgan Guaranty Trust Company of New York, as Fiscal Agent, has selected for redemption on April 15, 1988 through operation of the sinking fund $20,000,000 aggregate principal amount of Notes at the redemption price of 100% of the principal amount thereof, as follows:

OUTSTANDING BEARER NOTES OF $5,000 EACH BEARING THE PREFIX "B" AND THE FOLLOWING DISTINCTIVE SERIAL NUMBERS:

[illegible]																														
541	1059	1590	2171	2677	3249	3800	4354	4948	5480	5966	6482	7035	7553	8070	8597	9140	9663	10187	10757	11271	11796	12351	12854	13363	13883	14440	14945	15480		
548	1063	1594	2173	2678	3251	3832	4355	4951	5482	5968	6487	7038	7554	8073	8634	9145	9666	10189	10760	11274	11797	12353	12855	13368	13887	14443	14947	15483		
549	1066	1597	2174	2679	3253	3833	4360	4953	5483	5971	6532	7040	7555	8074	8636	9149	9668	10199	10762	11277	11833	12354	12865	13370	13890	14444	14948	15487		
551	1071	1599	2177	2680	3257	3834	4363	4954	5489	5975	6533	7042	7557	8075	8637	9153	9670	10236	10763	11278	11834	12355	12868	13375	13899	14445	14949	15489		
553	1076	1600	2178	2681	3258	3835	4365	4957	5496	5978	6535	7044	7558	8077	8638	9154	9671	10237	10770	11279	11837	12360	12870	13376	13932	14449	14951	15496		
555	1081	1633	2179	2682	3260	3836	4374	4959	5499	5979	6538	7047	7559	8078	8641	9155	9673	10244	10774	11282	11841	12365	12871	13378	13933	14453	14957	15497		
557	1083	1634	2181	2690	3262	3838	4375	4962	5532	5981	6540	7049	7563	8080	8647	9157	9675	10247	10776	11287	11842	12368	12873	13397	13934	14455	14958	15499		
558	1089	1635	2187	2694	3265	3841	4379	4965	5533	5982	6541	7053	7565	8087	8648	9158	9678	10248	10777	11289	11844	12370	12877	13399	13937	14457	14959	15500		
565	1090	1637	2190	2696	3271	3843	4380	4966	5534	5987	6543	7059	7574	8089	8653	9159	9680	10249	10778	11294	11845	12371	12878	13400	13938	14459	14963	15532		
566	1094	1643	2194	2700	3273	3844	4382	4971	5536	5989	6544	7060	7576	8094	8655	9162	9682	10253	10780	11296	11848	12374	12879	13432	13942	14460	14965	15533		
568	1097	1645	2197	2733	3276	3848	4383	4975	5543	5990	6545	7063	7577	8096	8658	9163	9683	10255	10782	11333	11859	12376	12882	13435	13943	14462	14966	15535		
571	1099	1648	2200	2735	3277	3853	4389	4978	5545	5994	6547	7065	7583	8100	8660	9165	9689	10259	10783	11335	11866	12377	12883	13436	13944	14465	14968	15536		
573	1136	1649	2232	2737	3278	3858	4397	4979	5548	5997	6548	7066	7587	8132	8662	9166	9696	10262	10790	11336	11871	12380	12887	13438	13945	14473	14971	15544		

On April 15, 1988, the Notes designated above will become due and payable at the aforementioned redemption price and will be paid, upon presentation and surrender thereof together with all coupons appertaining thereto maturing subsequent to the redemption date, at the option of the holder, at the main offices of Morgan Guaranty Trust Company of New York in Brussels, Frankfurt/Main, London and Paris and at the main offices of Swiss Bank Corporation in Basle and Kredietbank S.A. Luxembourgeoise in Luxembourg. Pursuant to the provisions of the Notes, no payments of bearer Notes will be made at any office or agency of the Company in the United States, by transfer to a bank account in the United States or by check mailed to an address in the United States.

Coupons due April 15, 1988 should be detached and collected in the usual manner.

On and after April 15, 1988, interest shall cease to accrue on the Notes herein designated for redemption.

After giving effect to the above partial redemption, there will remain outstanding $20,000,000 aggregate principal amount of Notes.

GENERAL FOODS CAPITAL CORPORATION

By: Morgan Guaranty Trust Company OF NEW YORK, Fiscal Agent

Dated: March 14, 1988

Children's pocket money rises by 6%

By Feona McEwan

BRITISH parents are giving their children more purchasing power in increased pocket money, according to a survey.

The average weekly parental handout for the country's 11m youngsters has outpaced the retail price index, rising by 6 per cent between 1987 and 1988 to an all-time high of £1.22.

But overall income among Britain's five to 16 year olds is down by 5 per cent, mainly because of a drop in earnings from Saturday jobs and newspaper rounds among the 14 to 16 year olds.

Since 1987, the average weekly wage from Saturday jobs among 14 to 16 year olds has fallen by 32 per cent from £1.83 to £1.24.

The findings, which are based on a Gallup survey of 816 parents of 1,260 children in January, are reported in Wall's Pocket Money Monitor 1988. The study has been going since 1975 when the average weekly pocket money was 33p.

Scottish parents are the most generous for the third year running. In spite of the general decline in youngsters' total income, Scottish children receive about £1.60 a week, on average 23 per cent more than children in other regions.

Children in Wales and the south west receive the smallest sums, about £1 a week. Figures in the report are not adjusted for inflation.

Money in the form of gifts from relatives and friends, as distinct from pocket money and earned income, was directed mainly at younger pockets. The five to 10 year olds gained more than in previous years, but at the expense of the 14 to 16 year olds.

Wall's Pocket Money Monitor 1988. Available on request from Birds Eye Wall's, Walton-on-Thames, Surrey.

Highest house prices in Surrey

By Richard Waters

THE average house in the south east of England was worth £64,657 at the end of last year – 35 per cent more than in the rest of country, according to Nationwide Anglia building society.

Surrey is the most expensive county, with houses at an average of £84,493. The average price around the country is £48,031.

The Nationwide says buyers in the south east borrow less of the price of their houses. On average they put up 44 per cent, or £28,251, as a deposit and borrow the rest. Buyers elsewhere put up £18,495 (38 per cent) as a deposit.

Rates laws to be amended to close business loophole

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

THE Government is preparing amendments to the Local Government Finance Bill to prevent a rush of demands for a rating revaluation from commercial property owners.

The amendments, prompted by a Law Lords judgment last month, will have retrospective effect and apply from midnight last Wednesday.

Changes to the law will assert the traditional criteria for assessing the rateable value of a property, at least until there has been a general revaluation of non-residential property throughout the country.

Until the Law Lords changed the criteria in the case of Addis v. Clement the rateable value of a property was assessed on its physical condition and on the state of its locality.

The Law Lords held that the existence of the Lower Swansea Valley Enterprise Zone had changed the rateable value of a factory owned by Addis, located just outside it. This meant that changes in economic circumstances could be taken into account in assessing whether the state of the locality had changed.

Mr Nicholas Ridley, the Environment Secretary, sought in the Commons last week to reduce the effects of that ruling which had opened the way for property owners, the value of whose premises had also changed because of economic circumstances, to appeal against the existing rating valuations on their premises.

The Government has decided that, except for rating cases already in the system, the Lords judgment will be ignored for the immediate future since the law will be tidied up retrospectively at some point. But no new rating regulations to that effect will be published, the Environment Department said. The situation will simply be as it was before the Addis judgment.

However, the wider definition of what constitutes the state of the locality, adopted by the Law Lords, will be taken into account in the future. "Changes in economic factors will be taken into account in the 1990 and subsequent revaluations," Mr Ridley said.

His move will be a relief to the Inland Revenue, which is preparing for the first general revaluation of non-residential property since 1973. This will be the base for a wider revaluation, one of the key elements in the Government's plans to reform local government finance.

Had the Government not acted, the Inland Revenue would have been faced with pressure for a series of immediate property revaluations at the very time it is seeking to introduce the wider reform.

First Anglo-US Goshawk trainer takes to the air

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE FIRST of an eventual 300 Anglo-US Goshawk training aircraft for the US Navy will be rolled out on Wednesday at Palmdale, California.

The T-45A Goshawk is based on the British Aerospace Hawk trainer. The overall programme, which involves Rolls-Royce of the UK and McDonnell Douglas and Sperry of the US, is expected to amount to more than $5bn (£2.7bn), by 1994.

This makes it one of the largest ever Anglo-American military aircraft programmes (another being the BAe-McDonnell Douglas AV-8B Harrier II).

The Goshawk venture provides a jet pilot training system for the US Navy, involving not only the aircraft but also flight simulators and educational and logistical support.

The aim is to replace existing Navy training aircraft that will have reached the end of their economic lives by the end of this decade.

By developing an integrated training system with the Goshawk, the US Navy expects to save substantial sums by reductions in flying hours, fuel consumption and personnel involved.

Over 70 per cent of the work on the Goshawk is being undertaken in the US, with manufacture of the aircraft at the Long Beach, California, plant of McDonnell Douglas, which is the prime contractor.

Parts for all the aircraft are being built in the UK by British Aerospace at its Kingston-Brough Division, as the principal subcontractor responsible for the aircraft element, while Sperry of the US is the principal sub-contractor for the simulators.

The engine for the Goshawk is the Rolls-Royce Adour, already used in Hawk and Jaguar aircraft for the RAF.

The aircraft being rolled out this week is the first of two development aircraft, but an initial batch of 12 production aircraft has already been funded by the US Navy. Further batches of aircraft will be funded on a progressive basis in the years immediately ahead.

Wardley enters Swedish market

BY ERIC SHORT

WARDLEY INVESTMENT Services, the investment management arm of the Hongkong and Shanghai Banking Group, has expanded its activity in Sweden, becoming the first UK fund management group to penetrate the Swedish investment market.

It has linked up with Gota Asset Management, the fund management division of Sweden's third largest private sector bank – Gotagroup – to manage a Luxembourg-based offshore umbrella fund available to individual Swedish domestic and expatriate investors.

This move follows the link-up at the end of last year between Wardley and Interbancaria Gestione to provide management for an Italian market mutual fund that will invest world-wide.

Sweden's relaxation of exchange controls is enabling its investment institutions to provide international investments on the local market. However, for the time being these institutions want international investment expertise from outside Sweden.

Wardley secured the deal in the face of competition from other European and UK investment groups.

The new fund – to be launched later this year – will have three sub-funds, covering both equity and bonds, with Wardley responsible for all investment except Swedish stocks. It is intended to expand the range of sub-funds in due course.

Ms Susan Hazelwood, marketing manager of Wardley Investment Services International, said that as European countries progressively relaxed exchange controls, the group expected to see more such agreements set up, and further deals were in the pipeline.

NOTICE TO HOLDERS OF

DOWA FIRE AND MARINE INSURANCE COMPANY, LIMITED

Warrants to subscribe for shares of Common Stock of Dowa Fire and Marine Insurance Company, Limited issued in conjunction with an issue of U.S. $70,000,000 4% per cent. Warrant Notes due 1992

[illegible]

THE DOWA FIRE AND MARINE INSURANCE COMPANY, LIMITED

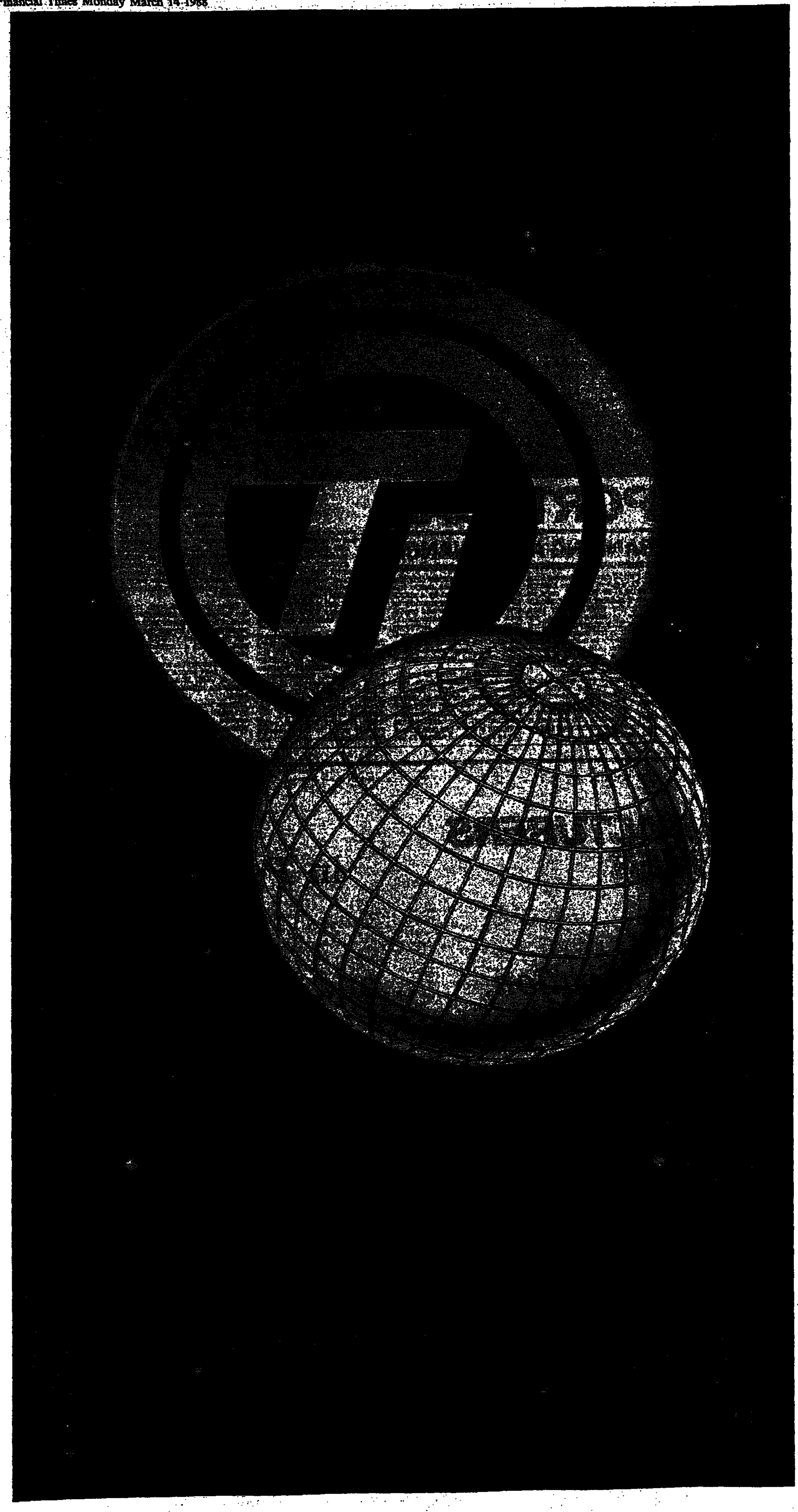
By: The Bank of Tokyo Trust Company as Warrant Agent

Dated: March 14, 1988

NOTICE TO HOLDERS OF TRIZEC CORPORATION LTD. BEARER SECURITIES

Copies of the 1987 Annual Report of Trizec Corporation Ltd. can be obtained on request from:

The Secretary
Trizec Corporation Ltd.
[illegible]
Calgary, Alberta T2P [illegible]
[illegible]



FINANCIAL TIMES SURVEY

EC membership and strong economic growth have attracted considerable foreign investment, though credit ceilings are forcing companies to borrow abroad. Managers seek fewer government curbs and less of the ever-present red tape. **Diana Smith** reports.

Pleas to ease petty control

PORTUGAL

BANKING AND FINANCE

CONTENTS

Picture: Humberto Delgado Square in Oporto

IT WAS LIKE OLD times. Protesting workers thronged the streets, rain-soaked commuters suffered through transport strikes, businessmen grumbled about bureaucratic incompetence, and the media chided the Government for its arrogant lethargy.

With the July 1987 election triumph of Prime Minister Anibal Cavaco Silva and his broad-spectrum Social Democrat (PSD) party, the 51 per cent of voters who backed the technocrat-turned politician, and many who did not vote PSD but privately welcomed majority rule after 13 years of yo-yo coalitions or minorities, hoped for something different.

They saw Mr Cavaco Silva as a man to cut clean through petty bureaucratic control that had resisted liberalisation and hindered dynamic growth.

They expected so much because they were promised so much - not just by a reformist platform but by 1985-87 when Mr Cavaco ran a no-nonsense, efficient minority government.

Voters obeyed the PSD's call for a majority immunising it against Parliamentary defeat and endemically short-lived government.

They waited starry-eyed for a new broom to whisk through cobwebs like the 400 - count them - 400 separate slivers of legislation ruling investment incentives.

Business hoped for liberation from the rule of obsessively-legalistic minor officials who drew up flawed, excessively-detailed definitions of how activities should function then niggled at anyone who failed to obey them to the last dot on the i.

Union officials and workers, elated by real 1987 wage gains and an effective government, management and trade union confederation bargaining council, wanted continued smooth bargaining, more gains and official flexibility on proposed labour reforms making individual or collective dismissal less rigid.

The unions wanted firm brakes on arbitrary individual sacking, but were ready to discuss general labour reforms. Dreams soured as odd signals emanated from the Mark 2 Cavaco government.

In Parliament, the PSD treated its majority as licence to scorn consensus at the very time it should have begun negotiating with Socialists and Christian Democrats on the final erasure, due this year, of pro-nationalisation traces from the revolutionary 1976 Constitution. This needs a two thirds majority the PSD lacks on its own.

The Socialists, the second largest party, are now solidly behind their leader, Mr Vitor Constancio, after a shaky start; the Christian Democrats, once friends of the PSD, have rallied behind Mr Diogo Freitas do Amaral. Both accuse the PSD of dragging its feet on reforms, and overweening arrogance.

Dismayed businesses found some bureaucratic interference worsening and cronyism seeping in, epitomised by a withering disdain towards those not hand-picked by the new majority.

Unions saw the authorities target 1988 inflation at a 5 per cent level to which few outside government gave credit (the EC projects 6.8 per cent), then try to impose wage rises below targets discussed in 1987.

The powers seemed increasingly reluctant to seek consensus on matters of substance.

Atavistic haughtiness was not what the fans had expected. Protests and strikes began and multiplied.

By mid-February, glowing from the EC's gift of an extra Es500bn (US$3.6bn) to Portugal, once its poorest member but now, according to the OECD, better than Greece in mean income, Mr Cavaco Silva returned his political sensitivities and began to listen - most urgently to moderate union leaders who then agreed to drop calls for a general strike and return to a bargaining table they had abandoned in anger.

He gave the PSD and Cabinet pep talks. To the public, he renewed vows of modernising reform "despite resistance of those who hamper progress." Most importantly, he showed a will to seek consensus on important legislation.

But the voters' almost childlike faith in the Cavaco magic has evaporated, replaced by a scepticism that in the long run may be more adult, healthier and conducive to ballot box pressure for sleeker administration. Next year brings local elections and a classic mid-term acid test of government standing amid (now) benumbed and less-disorganised opposition.

A widespread sense of anticlimax has detracted from real achievement in 1987 - inflation down from 30 per cent in 1982 to 9.4 per cent last year; lively GDP growth of 4 per cent; strong job creation with unemployment dropping below 8 per cent from a 12 per cent peak; dynamic 15 per cent investment growth as industry rushed to modernise in time for the 1992 impact of the EC common market; and a buoyant external account.

The second year of EC membership (and voluminous funds for improvements in infrastructure) attracted foreign productive investment and a flood of portfolio investment while the stock market still beckoned before its crash.

A hot $700m flooded Portugal and the Stock Exchange from abroad. It did wonders for the invisibles account. By October the foreign exchange position was a dazzling, unprecedented $3bn, gold reserves glowed brighter thanks to high market prices, and the net foreign debt was only $1.5bn, of a gross foreign debt in dollars of $6bn.

The Bank of Portugal could proudly point to early foreign debt redemptions last year and more planned this year, with net new foreign borrowing of $450m in Portugal's, not its creditors', favour. In other words, it was paying back more than it planned to take.

Despite a trade gap of $2.8bn in November, stretching under the impact of inexorably-rising EC capital and consumer goods imports with which slower-rising Portuguese exports can only partially compete, the balance of payments on the current account ended 1987 in surplus - $530m by November, an estimated $700m by December, thanks not just to foreign investment but escalating tourism revenue (up 40 per cent in dollars), and emigrants' remittances, (up 20 per cent in dollars to nearly $3bn).

On the home front, the too-hot money supply growth of 35 per cent in 1986 cooled to 2 per cent last year as money shifted into investment.

"Broad money" - liquid assets in public hands - cooled to 16 per cent growth last year, against 22.6 per cent in 1986.

Inflation-fuelling growth of private consumption of 7 per cent began to taper off as punitive hire purchase interest of 26 per cent started hurting; 1988 has begun with more judicious personal spending.

Very high real interest of nearly 10 per cent on loans helps bank margins but not business borrowing. Many companies, as exchange controls soften under EC-imposed liberalisation (which the most dogged local bureaucrats cannot avoid) now borrow abroad, outside tough local credit ceilings.

These could ease were it not for the post-1975 nationalisation saga of a public sector borrowing requirement no longer the perilous 20 per cent of GDP of the past, but still a cumbersome 10 per cent.

The monstrous accumulated public debt (more than 60 per cent of GDP) is as awkward as crabgrass invading a suburban lawn.

Those who hoped for mowing by rapid privatisation and civil service cuts may register two points:

- The Government's 1987 urge to privatise fast was fuelled by an urge to make money on a stock market then booming, now limp;
- The Finance Minister, Mr Miguel Cadilhe, said recently it was "unrealistic" to expect willy-nilly public spending cuts. "Dismissing civil servants," he said, chilling the veins of entrepreneurs haunted by red tape, "is politically unfeasible."

Back we go to shaky confidence in government willingness to decentralise.

The administration has done a creditable job of money management. People management is another matter: often distorted by a vision of people as "economic agents," it seemed loath until the tide turned so fiercely against it to heed the *vox populi*.

Until Mr Cavaco Silva himself discreetly began rowing back (while, as a proud, tense man, trying not to appear to yield to protest or pressure), his cohorts seemed to have adopted as their mantra his eight-year-old assertion: "I am never wrong and rarely have doubts."

Ignoring market-experienced voices also damaged a vital area of the economy - the Stock Exchange.

After failing to enliven sluggish clearing procedures, or curb blatant insider trading that preceded the November crash, the Government took steps that dashed rather than raised confidence in a bruised market.

As the crash began to hurt, Mr Cadilhe, whose Ministry runs a bureaucratically-administered stock market, told banks to buy and push up the price of shares that had fallen far enough in his view. Most ignored him.

The authorities then restlessly tinkered, removing then reimposing daily limits on price fluctuations - leaving operators and investors in persistent doubt over the next move.

Perpetual tinkering with the financial system draws ever-louder complaints. Like downstairs neighbours angrily waiting for the other shoe to drop, business waits, muscles tensed, for the next decree-law to drop.

It would prefer a game with set ground rules that is not vulnerable to a club secretary's order to switch procedure in mid-innings.

Government credit limits are worrying the bankers

Braced for EC competition

PORTUGAL'S BANKS, both nationalised and private, reaped rich rewards from last year's exuberant stock market, increased liberalisation, lower inflation and the country's economic upswing.

"There has been a revolution in the financial system and this is good," beams Mr Alexandre Vaz Pinto, chairman of the state-wned Banco Espirito Santo e Comercial de Lisboa (Bescl).

But as the euphoria of 1987 begins to fade and the 1992 deadline for the free market looms ever nearer, Mr Vaz Pinto, like most of his colleagues, is bracing his bank for tougher competition, is consolidating its position and expanding into new areas.

Bankers are complaining, however, that major growth will not be possible with the sharp credit limits the Government clamped on all banks in an effort to cool feverish consumption, control the balance of payments and reduce inflationary pressure on the economy.

"With a tight monetary policy, you cannot make money on individual credit lines. That is where the money is, not in corporate financing," says Mr Francisco Veloso, president of the small private Banco de Comercio e Industria (BCI).

Even so, BCI's assets grew 158 per cent to Es29bn while deposits increased by more than 200 per cent to about Es11.5bn compared to 1986.

Augusto de Athayde, president of the successful two-year-old private Banco Internacional de Credito (BIC), owned by the Espirito Santo family group, has similar feelings on the rigid system.

"Portuguese banking still has its archaic features. For a bank like ours that bets on innovation and services such as portfolio management (which tends to be a worldwide operation), controls make things very difficult," Mr Athayde says.

However, the compact size and youth of Portugal's small private banks allows them to adapt quickly to market changes - something the older, less flexible banks cannot do.

"We live today with the idea that tomorrow will be different," Mr Veloso explains, a philosophy he believes will see BCI confidently into a future single European market.

Raul Capela, president of Banif - Banco Internacional de Funchal, Portugal's newest private bank inaugurated in January with a starting capital of Es11bn, is not a man to pull his punches. He agrees that government curbs are damaging.

"We are not here to make a bread and butter living, we are here for sophisticated banking. Credit limits are a major obstacle to our development.

"I have bet strongly on the open market system. A united Europe is better than a destroyed Portugal," Mr Capela says.

Public banks in Portugal are less enthusiastic. Mr Vaz Pinto says: "1992 will be an important challenge. I think we should be very cautious and prepare ourselves. Even so we shall have to have an additional transition period in order to adjust."

Caught in a wave of nationalisation that handed more than half the economy over to the State after a left-wing coup in 1974, Bescl is a star of Portugal's nationalised banks. Prudent management kept it free of a rash of bad debts following the decolonisation of African territories; innovative leadership almost doubled cashflow to a projected Es20bn in 1987.

The euphoria of last year's profitmaking has begun to fade as the 1992 free market deadline approaches and the banks look hard at the government restrictions which bind them

Raul Capela: betting on an open market system

Bescl, like Portugal's largest nationalised bank, the Banco Portugues do Atlantico (BPA), is trimming home operations and pushing into neighbouring Spain. "Commercial relations between our two countries have grown tremendously," says BPA's president Joao Oliveira, whose bank was the first from Portugal allowed by Madrid to open a full branch.

On the home front, BPA, responsible for roughly 20 per cent of commercial banking with 159 branches at home and offices from London to Macao, is working zealously to present itself as the perfect candidate for forthcoming privatisations. "We have the technical capacity needed for privatisation, and are expanding and improving the service to clients," Mr Oliveira says.

The Oporto-based bank, whose cash flow increased to Es15bn in 1987 from Es8bn in 1986, now offers insurance and housing loans, is automating and rationalising its branch network, and has hired stock market specialists to develop services in the capital markets.

The former chairman of BPA, Mr Jorge Jardim Goncalves, now energetically presides over the fastest-expanding new commercial bank, Banco Comercial Portugues (BCP), which successfully floated part of its shares in 1986, and is rapidly opening branches in Lisbon and Oporto - where 70 per cent of its upmarket business is done, and in smaller urban centres.

Ruthlessly selective in its clientele, the BCP is out for a major share in the most profitable sector of the market, up and coming young professionals and small to medium businesses looking for sophisticated service.

On the bumpy road to privatisation, a government experiment turning the smallest nationalised bank, Uniao de Bancos Portugueses (UBP), into a publicly limited company with 51 per cent held by the State and the rest by public sector enterprises, has resulted in a permanently-divided anaemic bank.

It complains that double management - the Ministry of Finance and the shareholders - if coupled with the same bureaucratic obstacles as before, made the transformation senseless.

But with real privatisations just up the road and a genuinely liberalised financial market behind that, UBP has been cleaning house with a vengeance. In two years it reduced staff by more than 8 per cent, increased its capital, stabilised loan losses, and pulled cash flow up to Es.6.6bn. However, Mr de Almeida admits there is much more to be done.

In Lisbon's downtown area, Mr Almerindo da Silva Marques last year achieved the Herculean task of turning round the floundering Banco Fonsecas e Burnay (BFB), a nationalised bank that got sucked into a black hole of bad debts following the revolution.

Mr Marques reduced overheads, sharply cut back staff, got rid of unused buildings, rationalised investments and the branch network, and managed to reduce bad debts drastically. The result was that after years of losses, in 1987 BFB finally registered a cashflow of Es4bn.

In spite of this victory, Mr Marques remains tied to an uneasy seat, roped down by bureaucracy and lack of decision-making powers. Even with a head full of ideas to face stiffening competition, his position as head of the nationalised bank is to be "ready to follow what the monetary authorities dictate."

Perhaps the freest of fetters is the national development bank, Banco do Fomento Nacional (BFN), whose vice-president is Antonio Marta, a former leading negotiator for European integration. BFN forged ahead last year with a strategy of attracting international business through offices in Madrid and Brussels, expanding para-banking operations with profitable investment funds and venture capital companies, reducing staff and aiming future business at medium to high level consumers.

Mr Marta says: "We don't expect this year to be as profitable as 1987, but we would be able to compete better without the handicaps we public banks have which make it hard for us to raise capital or hire the best specialised people."

While private banks can increase capital through public offers of sale, BFN and others can do so only by more costly means incorporating reserves.

Moreover, nationalised banks, compelled to follow government-imposed wage limits, have been losing top specialists to private competition.

But these obstacles can be overcome. With the right amount of government flexibility, bankers feel ready for the fray.

Sharon Behn

Investment institutions

Fears that control will stay

THIS YEAR will prove a rite of passage for Portugal's investment institutions as they face a duller stock market, privatisation and increased competition.

Filled with the euphoria of last year's boom, investment banks, investment companies and financial service companies feel ready to meet these challenges. Their only fear is that Government will not ease its parental control over the financial system.

Much of last year's activity was marked by a soaring securities market. For example, MDM, recently acquired by one of its founders, Deutschebank which bought out the other two partners, Morgan Guaranty and the Melo family, doubled its investment in securities to Es1.6bn compared to Es600m in 1986. Its net profit, generated by commissions, fees and securities, leaped to Es400m from Es92m.

Banco Portugues de Investimento (BPI), took advantage of the bullish market to launch the country's largest-ever issue totalling Es23bn, trebling BPI's capital in the deal.

Its 35-year-old general manager, Mr Fernando Ulrich, says: "We affirmed our position in the capital market. It was a very good year of consolidation and growth."

Perhaps the most spectacular player was Cisf, Companhia de Investimentos e Servicos Financeiros, the ambitious investment company created in 1984. Cisf increased its net profits five times over its 1986 figure of Es413m to reach Es2.7bn last year. It shows no signs of slowing down.

But an unprecendented frenzy by investors combined with a limited amount of paper, government-imposed limits, market manipulation and upheaval on the international markets led to the crash last November.

Recovery may slow. In a move some interpret as over-protective, the Finance Ministry has made itself responsible for evaluating companies which want to launch Public Offers (OPVs).

Mr Jaime d'Almeida, MDM's chairman, says: "The true recipe for protecting investors is not rules which limit the market, but making available the best, clearest company information as possible."

Government attempts to regulate the market through price and volume limits have come under heavy fire from investment institutions. "Constant government tinkering does not allow the market to stabilise," Mr Mascarenhas says.

Government interference has not dampened investors' enthusiasm. "We will have to be more imaginative this year, to take advantage of existing savings capacity," Mr d'Almeida says.

MDM is already thinking of fixed rate operations - a first since the 1974 coup nationalised banks and hit the stock exchange - the possibility of interest rate swaps, convertible bonds and preferential shares.

Eurofinanceira, a small investment society 45 per cent owned by Banque Nationale de Paris and 55 per cent by Banco do Fomento Nacional, plans to enter the futures market, portfolio management and set up a real estate fund.

Competition will be stiff. The newly-arrived Hispano Americano investment company, backed by Spain's second largest bank, Banco Hispano Americano, is already negotiating a factoring company, is involved in a pension fund, plans to establish a real estate fund, a leasing company, a vehicle credit company, a life insurance company and is likely to set up a money market investment fund to provide portfolio management and open its management services to the public.

Portugal's own investment and merchant bankers, epitomised by the latest newcomer, Finantia, are unflustered by foreign competition.

"More competition is needed to build up the market. Our bet is to concentrate on corporate financial services and securities trading and develop research on international standards," says Mr Antonio Guerreiro, Finantia's managing director.

Harvard-trained Mr Guerreiro leads a young, self-confident team with international experience.

Inspired by the dynamic market, even a non-competitive, non-profit, project-financing bank like the European Investment Bank, which last year granted Es63bn to major infrastructures (roads, bridges, and energy projects); private enterprise - especially mining, manufacturing and tourism; and small to medium companies, has moved into high gear.

It wants to enter the bond market and include Portugal in the next international ECU currency cocktail. "An issue of an international institution, freely transferable, will be very important for Portugal," says Dominique de Crayancour, EIB's Lisbon director.

The challenge facing the Government is to keep up the momentum. Investors are calling on the Government to shrink the gaping budget deficit, purge the ruinous public sector, embark on an immediate course of privatisation and loosen control of the monetary market.

Investment institutions hope for a rapid lifting of the credit ceilings that have cramped their activities. "We would like easier credit policies and legislation that allows us better access to the money market," says Mr Carlos Ribeiro Ferreira of Hispano Americano Soc. de Investimentos.

Investment organisations have been denied entry to the interbank market and can do so themselves only through savings or scarce bank lines.

One area likely to develop is mergers and acquisitions. Outside investors are keen to buy Portuguese companies as a way to enter the EC from the inside; Portuguese companies, often small, family-owned businesses with shaky financial structures, are beginning to realise that merging could be their ticket to the future.

Spanish and French capital has already made inroads, especially in consumer goods, textiles and clothing.

Mr Ribiero Ferreira says: "We believe there will be a lot of cross-shareholding between Spain and Portugal. The two countries must complement each other to face EC competition."

On the horizon is privatisation which, in the words of Mr Ulrich, "will make some very big deals."

While nationalised companies are being slowly prepared for privatisation, bankers whose assets were nationalised in 1975 are coming home. ESSI, the investment company of the repatriated Espirito Santo Group, is now vying for a strong market share.

Sharon Behn

Profile: Cisf

Startling profit

THE NET PROFIT generated in 1987 by Cisf (Companhia de Investimento e Servicos Financeiros) was Es2.7bn ($19.5m) - more than any profit earned by any local commercial bank.

The result is startling for a two and a half year old financial service company that employs just 24 people - including the cleaning lady - who all enjoy profit-sharing and share-owning schemes - and one that almost died at birth because of Portugal's legendary bureaucracy.

The brainchild of Jose Vaz Mascarenhas and Jose Alberto Tavares Moreira (now Governor of the Bank of Portugal), Cisf was conceived as Portugal's first financial service company.

It could not start up as planned in 1984 because there was no legislation to cover financial service companies. Haggling ensued, then CSF bowed to the authorities' suggestion that it add "Investment" to its name: there was a decree-law for investment companies.

Mr Erminio Ferreira, who took over from Mr Tavares Moreira when the latter switched to government from corporate financing and fee-earning services, beams at the success inside Cisf of some of the best graduates from his Catholic University MBA course - a new generation of high-tech high fliers.

Cisf's profit multiplied five times from 1986 to 1987. It went public. Capital and reserves ballooned to Es5.2bn ($97.6m) from a modest start-up of Es400m ($2.8m).

The brief 1987 Stock Market boom swelled profits and Cisf, selective to the point of rejecting more stock flotations or bond placements than it agreed to underwrite, led 98 private and 25 public placements.

In an innovative area - fee-earning design of new ventures - Cisf produced a couple of dozen projects: factoring companies, leasing companies, regional development companies, investment companies, real estate mutual funds, mortgage companies, property management companies, pension fund management and insurance companies - some jammed in chronically-clogged bureaucratic streams awaiting if not a decree-law, at least a licence.

Cisf was founder of Portugal's first unit trust, Fundo Invest, and partner with Lloyds Fund Management of the London-based $40m Portugal Fund Ltd. Now it is preparing Capital Crescente, the first Lisbon-based closed-ended fund.

D.S.

PORTUGUESE BANKING AND FINANCE 3

Foreign investment has leaped since Portugal joined the EC

Confidence in the future

"LABOUR HERE costs $4 per hour; in Germany it costs $19. I can do a lot with $15," says Udo Kruse, president of Ford-Lusitana, explaining his company's enthusiasm for Portugal's investment climate.

The spectacular difference says a good deal about Portugal's popularity. Figures for 1987 published by the Foreign Investment Institute show that Esc61.6bn ($437m) direct investment was attracted last year, a rise over the 1986 total of 152 per cent.

But Portugal's labour has been cheap for a long time. Ms Raquel Ferreira, president of the Institute, who is shortly to become Portugal's Ambassador to Stockholm, is quick to stress that such results are largely thanks to Portugal's accession to the EC at the start of 1986.

Accession brought a mixture of advantages, some material, as with the removal of trade barriers, others less tangible, like the feeling it gave of "a predictable vision of our political and economic evolution," according to Ms Ferreira.

Put more bluntly, it has brought confidence that Portugal will not return to the revolution of the mid-1970s.

European countries supplied the biggest investment in 1987, with the UK (Esc14.67bn) and Spain (Esc12.4bn) leading the way with 45 per cent between them. Investment of EC origin made up Esc44.7bn of the total. Efta countries contributed Esc4.34bn, half of it from Switzerland, while among non-European sources, the largest was from the US with Esc6.9bn.

FOREIGN INVESTMENT

	1986	1987
	Esc bn	
EC	16.77	44.71
Spain	2.72	12.42
France	2.32	4.87
Luxembourg	1.11	4.29
UK	5.5	14.68
W.Germany	3.63	3.41
Others	1.49	5.04
EFTA	4.49	4.34
Non-EC	3.23	12.57
US	1.9	6.9
Brazil	0.29	1.75
Japan	0.26	1.52
Others	0.78	2.4
Total	24.5	61.63

Source: Foreign Investment Institute

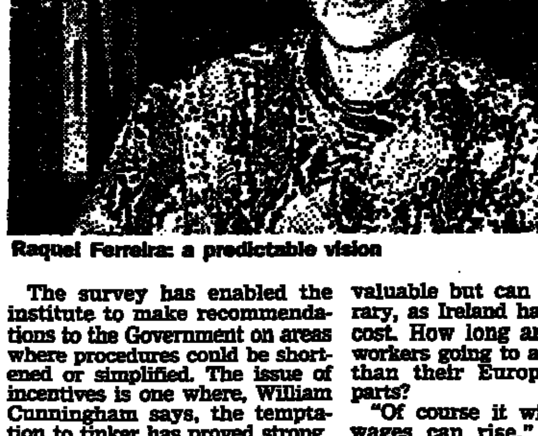
The British figure is, for the most part, explained by tourism-related development such as the acquisition by Avis, the car rental company, last year. Tourism received a total of Esc8.5bn direct foreign investment last year, second only to financial services.

The FII has decided lately to focus on third countries, particularly the US, a nut that in the past proved hard to crack.

"We have done studies that lead us to believe that that there are small and medium-sized US enterprises on the verge of looking for a European location. We are trying to convince them that we have the conditions that are most interesting, profitable and successful for them," Ms Ferreira explains.

US companies have been slow to bite in the past. William Cunningham, of accountants and consultants Arthur Andersen, cites specific American unease about the lack of a tax treaty between the two countries, which would protect companies from, for example, double taxation.

Despite 1987's figures, all is not well. Arthur Andersen has carried out a survey commissioned by Raquel Ferreira, examining three areas where foreign investors have complained: red tape; establishing a company; and the tax and incentives systems.



Raquel Ferreira: a predictable vision

The survey has enabled the institute to make recommendations to the Government on areas where procedures could be shortened or simplified. The issue of incentives is one where, William Cunningham says, the temptation to tinker has proved strong.

Frequent changes to what is on offer, coupled with the problem of actually getting the cash grants, requiring "boxfuls" of original documents to prove both eligibility and that the money had been spent, has provoked irritation.

Portugal's main competitors, either on the basis of absolute labour cost or because they offer the cheapest European option, are Taiwan, Singapore, Ireland, Spain and South Korea. Portugal's textile labour, for example, is cheaper than that in Hong Kong, Taiwan and Tunisia.

A competitive edge on wages is valuable but can prove temporary, as Ireland has found to its cost. How long are Portuguese workers going to accept less pay than their European counterparts?

"Of course it will be good if wages can rise," Ms Ferreira says. "But by the time they do, workers will be more skilled and productivity will have risen."

Against cheap labour however, investors have tended to set the disadvantage of the labour laws, designed to give maximum protection to the workforce.

The Government is already battling with the unions over the "pacote laboral," a package which is intended to restore some power to employers. The conventional wisdom is that until the laws are changed, case-by-case negotiations are the only way to shed staff. But Ford maintains that it is a question of dedication. Udo Kruse recalls that Ford assembled a voluntary redundancy deal five years ago, at a time of rising unemployment, and managed to shed 40 per cent of its staff in seven weeks.

He acknowledges that the package was costly and that, with hindsight, it might have been done more cheaply. But it was imperative to get the company's costs under control.

Ford Lusitana signed a deal last August to produce the Sierra P100 pickup in Portugal under which it would invest $12m. The first vehicles came off the Azambuja production line in January, are also for export to Britain and are likely to go to other European markets.

Mr Kruse is bullish about the prospects. With cheap labour, a capable local supplier base, government stability and young and trainable people, he says, it has worked like America. "Fantastic. We're delighted about our feelings for the future."

Another source of potential investment is less enthusiastic. Japan opened an investment office soon after EC accession but so far little has resulted.

Ms Ferreira believes Japanese companies have shown interest in financial services, real estate and tourism, and are active in the capital markets. But Ford, at any rate, is not expecting competition in the near future.

"I personally do not believe that Japanese cars will be able to come in here. The legislation says clearly that only 10 per cent of the industry will be for non-EC markets...it will be controlled for years to come."

The EC has played a central role in creating the investment climate. Raquel Ferreira points out that Portugal has benefited in terms of trade, it has gained access to structural funds for training, regional development funds for infrastructural improvement, and seen competition return in areas which can mobilise funds for investment - like insurance.

There have been complaints however, that the biggest beneficiary of new investment is the financial sector and that local Portuguese manufacturing is being left out of the investment boom.

Mr Cunningham confirms that, excluding the very big projects, investors tend to choose sectors such as services, vegetable or fruit cultivation and food processing. Ms Ferreira argues however that the services boom provides support for industrial initiative.

The FII reports that Es38.8bn or almost two-thirds of the total Es61.6bn centres on the services sector and, of that, Esc15.1bn went to the banking sector. This includes the Esc10.5bn mandatory increase of capital by eight foreign banks. Just Es19bn investment came to the industrial sector, in areas like glass, wood processing from Spain, chemicals and manufacture of components.

Raquel Ferreira stresses the importance of political stability. With the Cavaco Silva government's absolute majority and four-year modernising programme, she feels it is here to stay.

"The pro-business attitude of this Government offers stability for enterprises which can be assured that their policies will have a certain time to develop," she says.

Those who disagree complain of patronage in the distribution of EC funds and that there is still too much bureaucratic inclination to dictate to companies on how they should operate.

But in the end what counts is the verdict of the companies which have invested. And as William Cunningham comments: "Most foreign companies in Portugal are quite complimentary."

Akwe Amosu

Foreign banks

Profits with discretion

"SO HERE you are," said the junior Portuguese civil servant to the senior foreign banker, "the bank that rolls in money."

Fielding epithets like "rolling in money," or "over-profitable" has become something of a routine for the six foreign banks licensed between late 1984 to early 1986 to operate alongside new private Portuguese commercial or investment banks, entrenched public sector banks and three old-established foreign banks - Lloyds, Credit Franco-Portugais and Banco do Brasil.

The newcomers are the last to deny they are profitable.

Manufacturers Hanover, with a 1987 profit of more than US$10m, among the highest earners in local banking, Barclays and Citibank with similar 1987 profits of more than $5.3m, Banque Nationale de Paris with a 1987 cashflow of $3.6m, and the two other newcomers, Chase Manhattan and Generale Bank of Belgium sold if quieter; the newcomers do not displease their head offices.

Equally, older foreigners have gone out for a larger market share in corporate and personal banking, though inhibited like all banks in Portugal by the tight-laced corsets of credit limits and slow bureaucratic authorisation of new branches.

Lloyds, 125 years in Portugal, has brushed up its strategy and built up fee-earning services as well as sleeker personal banking. Assets in 1987 grew to Es48.2bn ($350m) and profit rose to $7.2m.

Credit Franco-Portugais' 100-year-old offshoot of the Credit Lyonnais has also plumped for expansion of branches and diversification.

Alongside Portuguese enterprises foreign banks, especially Credit Franco-Portugais, Lloyds, Barclays, Banque Nationale de Paris and Citibank, have invested in one or more profitable ventures like leasing, financial services, investment or insurance companies and most recently, mutual funds.

Though mainly wholesale and not keen on multiple branches or full commercial banking, Barclays, Manufacturers Hanover, Citibank and Banque Nationale de Paris in 1987 started small operations in the northern city of Porto and found them useful - though as newcomers there they must prove themselves to conservative northern businessmen used to calling their own time with local banks.

Were profit the sole yardstick, the Portuguese outlets of some of the world's largest banks would be all smiles. But three years of haggling with bureaucrats dulls the edge of profit-making.

Newcomers had to persuade head office, after the Finance Ministry in 1986 arbitrarily raised the capital requirement by $7m, that Portugal was worth $16m minimum capital - a sum out of proportion to a small, fiercely-regulated market.

And there was more to perplex head office:

● In 1985, after being led in 1984 to expect a survival rate of leverage of four to seven times capital, some wholesale newcomers, under new Bank of Portugal credit formulae weighted in favour of commercial banks, were expected to start up with leverage of less than one times capital. Tense parlaying produced a compromise.

● In 1987 the compromise - foreign currency swaps with Bank of Portugal exchange risk coverage, of one times capital, weighted in their credit ceilings and boosting leverage - was terminated by authorities who decided newcomers had had enough "privileges" - even if leverage (and profitability) shrank drastically.

● Letters to the authorities signed by all six newcomers, setting out their tale of thwarted expectations and shifting ground rules went unanswered.

Verbal helpfulness by more open-minded officials did not translate into formal concessions. The majority of financial bureaucrats seemed allergic to smoothing the path of the foreign "moneybags."

But after tense times, official willingness to negotiate seems to be improving. Hints have been dropped by Mr Miguel Cadilhe, the Finance Minister, that later this year credit formulas will become more flexible. The Bank of Portugal now seems willing to look at solutions on the local forward currency market that could ease leverage for foreign wholesale banks.

Meanwhile, to expand sources of funding and become more involved in Portugal, Manufacturers Hanover and Citibank have turned to the local stock market after a change in status from branch to full incorporation. Manny Hanny's December flotation of 20 per cent of its capital was highly successful, Citibank is determined to make as shining a debut when it floats 20 per cent soon.

Resourceful foreign banks now co-exist very harmoniously with Portuguese banks. These have shed initial fears that they would be eclipsed by such sophisticated competition and have risen well to the occasion.

The EC Common Market of 1992 is edging closer for Portugal. If the powers that be can learn to be less paternalistic, to trust and give more latitude to an increasingly-professional market, the local banking system may withstand future shock.

Mr Cavaco Silva said some months ago that bureaucracy, alas, would be the last redoubt to fall in Portugal. So fed up with this redoubt are Portuguese and foreign bankers that they have ceased to fear being thought disloyal or undiplomatic and now vent their irritation loudly and clearly.

Diana Smith

Automation

An exercise in cooperation

GROWTH OF AUTOMATION

Date	No. of cards issued	No. of transactions	No. of ATMs
Sept '85	400,000	54,000	40
Dec '85	500,000	213,000	60
Jul '86	640,000	489,000	100
Dec '86	770,000	730,000	115
Jul '87	820,000	1,110,000	140
Dec '87	940,000	1,337,000	153

Source: Sibs

"I HAVE learned that bankers are the most individualistic people in the world - it's not easy to make banks cooperate," says Mr Filipe dos Santos of Portugal's Interbank Data Services (Sibs).

Yet cooperation between Portuguese bankers has resulted in one of Europe's most advanced interbank payment automation systems.

An automated teller machine (ATM) network shared by banks controlling most of the market was launched in September 1985. More than 170 machines are now in use, with a target of 400 by the end of the year.

A point-of-sale facility has been added to the network and work is under way on an electronic clearing system which, apart from increasing the sector's efficiency, will permit home and office-based banking for customers. And it is all being done on the same system.

In 1976, Portuguese banks, like others in Europe began to talk about the possibility of cooperating in automation. The result was Sibs, established as a company by its shareholders, three private and ten state-owned banks in 1983. By mid-1985 the system - dubbed Multibanco - was off the ground.

"They saw Multibanco as a kind of highway system, a basic infrastructure needing huge capital investment but which would allow them to offer a package of financial products 'labelled' with a card," Filipe dos Santos recalls.

Sibs is particularly proud of the system's capacity for real time operation, which allows a transaction to be posted as it is carried out. The ATMs accept Portuguese credit cards, the cards of various international companies and debit cards from Multibanco's shareholders.

The system can handle cash withdrawal and deposit services, documents deposit, funds transfer, balance and statement enquiries, invoice payment, chequebook orders and PIN (personal identification number) modification.

Filipe dos Santos suggests that the instantaneous debit facility has had much to do with the system's strong growth. Banks, he says, were willing to issue cards very widely without credit limits because they could rely on the system to prevent unauthorised overdrafts.

The quick take-up of Multibanco bodes well for the Eftpos (electronic funds transfer at the point of sale) service launched at the beginning of last year. As yet it has only 100-odd terminals partly because there have been delays in the delivery of communication lines, but it is expected to grow strongly.

Petrol garages and supermarkets are the main sites. Retailers pay the installation and communication costs covering a range of services wider than simple electronic payment. But Sibs retains tight control over the security of the system.

Sibs is at pains to stress the low cost of using the same network. "Total Sibs equity is about $8m and total assets are roughly $18m. Adding the Eftpos facility cost about 10 per cent of that," says Filipe dos Santos.

The ATM network should comprise 800 machines by 1991. Sibs foresees the network being extended to access services from insurance companies and that it will shortly be able to operate as an electronic clearing house.

Portugal provided ideal conditions for widescale use of electronic funds transfer systems. John Frank of Lloyds Bank Plc in Portugal comments that payments systems prior to Multibanco's arrival were underdeveloped, with little use of cheque guarantee cards, credit cards or charge cards.

"Far from there being obstacles to an Eftpos system," he adds, "it's got more chance of success here than it has in the US or UK."

An enthusiastic pool of consumers is only one part of the picture. "The point is that it does not pay competition to have a very big number of machines on the high street," Filipe dos Santos says.

"Bankers came to understand that it was a drain on their cash to put machines everywhere. This way, every customer has a lot more machines; each bank is giving better service and paying less at the same time." The advantages of cooperation outweigh independence.

One bank has not always agreed with this view. Montepio Geral, a small but fiercely-independent savings bank, refused to join Sibs from the start. It says this was because it disliked the strategy of a joint logo and centrally-made decisions.

Sibs says, however, that Montepio's stated reason was fear that Sibs would be unable to produce a debit-based system that could protect Montepio's strict no-overdraft policy. Either way, it feels Montepio hoped to gain a market advantage from being the only independent service.

Montepio is now talking of linking its own ATM network with Multibanco, while keeping its own Chave 24 logo. But Sibs says this would be against the rules. With Sibs shareholders responsible for 98.5 per cent of cheques issued and Montepio Geral for just under 1.5 per cent, Sibs members are in a position to demand a full commitment from Montepio or none at all.

Sibs feels it has used Portugal's lack of automation experience to good advantage, because it has been able to learn from mistakes made elsewhere.

"We are vendor-independent," says Filipe dos Santos, citing the problems of linking up products from different manufacturers. "We ran away from vendor architecture and came up with our own."

With an eye on 1992, no ATM service would be worthwhile without accepting internationally-used cards. Multibanco machines accept Visa cards, as does Montepio's system.

Multibanco is also open to Eurocheque cards, and 4B, the network of Spanish commercial banks (Montepio has linked with Network 6000 of Ceca, the Spanish savings banks organisation). Talks continue with the Access/Eurocard /Mastercard family and also with American Express.

There is one completely different project on the horizon, that of the automation of Portugal's two stock exchanges. While some doubt that there is real enthusiasm for getting rid of a system that has so many profitable loopholes, Sibs would be "most happy" to help although it warns that the roles of players in the market would change fundamentally if the ordering and the payment processes were to be fully automated.

Akwe Amosu

Faith is strong that the stock market will recover

Gripping suspense of a soap opera story

MORE GRIPPING to an avid Portuguese public than the Brazilian soap operas that top the television ratings, the turbulent story of the Lisbon stock market has unfolded over the past year with all the cliff-hanging suspense and sudden reverses of fortune of classic melodrama.

Euphoric investors saw share prices rise like champagne bubbles by a dizzying 458 per cent in the ten months preceding the Black Monday crash of October. But the reckoning they faced was harsher than on any other equity market in the world as indexes plunged in subsequent weeks to a level almost two-thirds below the peak.

The collapse has traumatised a vulnerable market where most investors are estimated to have suffered substantial losses of capital as well as unrealised profits. Prices today rarely rise above the level of last June, when the vertiginous ascent began, and trading has fallen to between one-fifth and one-tenth of the volume reached at the height of stock market fever.

Intriguing subplots have developed to enliven the drama, including a government inquiry into alleged irregularities in share issues by the country's largest holding company, Sonae. Anxious investors milling under the vaulted arches of the 18th century Lisbon Stock Exchange, or Bolsa, and the illicit trading of share certificates in cafes continue to add a splash of exotic colour.

But Lisbon trading volumes of below Es400m ($2.9m) a session - less than daily dealings in many single stocks in London - and little more than a tenth of that in the tiny Oporto exchange, today provide a thin diet for the flood of stock market television programmes, newspaper supplements and specialist publications spawned during the excitement of last summer.

Faith is strong, however, that somewhere over the rainbow a happy ending lies in store.

"The Bolsa has played a central role over the past two years in a massive transfer of wealth from private savers to entrepreneurs able to use capital for economic development," says investment strategist Joao Rendeiro. More than 120 companies which have entered the market since 1986 have found the cash previously lacking to industry for expansion and productive investment.

Market professionals are confident the Bolsa will recover this power to stimulate economic growth after a painful adjustment to post-crash realities.

Mr Rendeiro says: "Considering that the overall prospects of the economy are sound, that company profits are forecast to increase 40 per cent in 1988, that many companies with excellent growth potential are trading at low prices, and that an incredible 90 per cent of the nation's savings is still tied up in time deposits, the future looks extremely bright."

How soon and how successfully Portugal's equity market can struggle back to its feet depends largely on the path the Government sets for modernisation. Up to now, the Finance Ministry has been widely criticised for acting too timidly and too late with minor adjustments to trading mechanisms that fail to address the central flaws in the system.

Prime Minister Anibal Cavaco Silva commented recently that people were playing the Lisbon stock market before October "like a lottery you always win." Critics believe that limiting government action before the crash to vague warnings was singularly ineffective in cooling speculation.

According to one specialist, satisfying tremendous demand by issuing stock indirectly owned by the Government would have been the best way of dampening the excitement.

Delay after the crash in abolishing a percentage limit on daily price fluctuations gave the managers of European equity funds time to take profits in Lisbon to balance their losses on other markets, aggravating the crisis in Portugal.

The Government has also come under fire for holding to a December 1987 deadline for abolishing tax incentives for share issues, despite the crash. This drove companies to go through with previously-planned issues in a depressed market, dumping most shares on the underwriting banks.

New guidelines for the Bolsa will emerge over the next few months with the implementation of a government reform package. The aim is to prepare the market for the Social Democrats' privatisation programme that will test both the confidence of badly-shaken investors and the ability of the system to handle large volumes of new shares efficiently.

Mr Alvaro Damaso, president of the Lisbon stock exchange, says the measures will include moves toward computerised settlement to overcome bottlenecks in the system; the setting up of independent brokerage houses to augment the nine officially-appointed brokers working on the Lisbon exchange; more exacting, EC-stipulated requirements for companies seeking quotation; the creation of private portfolio management companies, and an extension of the scope of fund management companies.

These will be allowed to manage more than one fund and, more importantly, launch investment trusts, or close-ended funds, that will bring more stability to a market where existing unit trusts, or open-ended funds, have suspended redemptions several times because of the volatile supply and demand.

However, many financial managers believe the proposals lack a crucial stimulus for demand, such as calling for greater stockholdings by insurance companies and pension funds, currently required to maintain only 5 per cent of their funds in shares, or re-introducing tax incentives for stock purchases.

"The Government's main error is to see the equity market as a mere extension of the commercial banking system," Mr Rendeiro says. "During a crisis the banks understandably turn away because it is not their central business. Developing merchant banks and other institutions whose life is wrapped up in the future of stock trading would be the natural way to assure the strength of the market."

Peter Wise

New institutional investors

Choices diversify

A CACHE under the mattress or passive time deposit are no longer the only way to save in Portugal. Choices for small, medium or institutional savers and investors have radically diversified.

However, Portugal is slower than its neighbour, EC partner and once equally-conservative Spain, in creating new products - not for want of trying by professionals well versed in the plethora of instruments offered abroad to the canny saver.

The innovators now peopling the Portuguese scene are like a field of frisky racehorses reined in at the starter's gate because inexperienced stewards are still huddled in the back office trying to work what a race is, how to control its speed and how to decide who is fit to enter.

For "stewards" read the legion of bureaucrats cranking out the latest set of decree-laws ruling the financial sector with due languor, trained by 400 years of colonialism and centralised rule to decreasing the pace of everything that moves - assuming the red tape is slack enough for it to move.

Take unit trusts, pioneered in mid-1986 by Invest, followed in 1987 by Fipor, Unifundo, Multipar and Valor Mais and soon to be joined by Fundinter. Well tested in other lands, Unit Trusts in Portugal are ruled like every financial innovation by specific decrees.

Out in the wide world where markets are entrusted to marketeers, the ratio of a customer's unit trust purchase is calculated in fractions or multiples of units - your $US100 buys you 3.6 units or whatever the appropriate portion.

In Portugal the people who drew up unit trust legislation forgot the fractions. Innocent unit trust managers issued certificates for 2.5 or 7.3 units. They were told sternly this was illegal.

Told that unit trusts need fractions as well as the multiples for which the law provides, the bureaucrats insisted their decree-law be followed to the letter. Multiples only it is.

Managers have stopped trying to explain that multiples are, well ... multiples of fractions - so if one is legal the other must be.

Catch-22 apart, Unit Trusts brought strong institutional investment to a difficult, embryonic market, with portfolios judiciously mixed with stocks and bonds, now worth some Es59bn (US$425m).

Obliged by law to invest no more than half their portfolios in stock, the unit trust managers are even more conservative owing to the market's raw immaturity and vulnerability to traumas like last year's Black Monday.

They have held ratios to between 60 and 90 per cent bonds and 40 to 10 per cent stocks, concentrating on emerging blue chip stocks finding a place on a now-quieter but also less-risky market, and studiously avoiding the unknown companies of unclear performance floated in the brief 1987 boom.

Even so, the crash on the Portuguese stock market from grossly-unrealistic share prices to November 1987 stasis led to some problems.

Not a few were caused by panic and local ignorance of what conservative unit trusts are for - sustained investment growth, not very short-term liquidity financing.

Customers in the early days rushed into unit trusts as if they were short-term money market Treasury Bills. A run on redemptions was threatened when the market suddenly deflated.

Three months later, after strategic suspension of redemptions in some cases and holding back on investment until they could see how the market would go, the unit trusts are settling in. Their customers are now clearer about what they have bought.

Unifundo has now introduced a new small saver scheme, Unipoupanca. Customers can leave standing banker's orders for a small monthly investment - not less than Es5,000 ($36) for an adult, Es2,000 (£14) for a child - in Unifundo units.

Meanwhile, real estate mutual funds, a variant on unit trusts, are just getting under way. One of the first, Imovest, run by Deutsche Bank's MDM, the Banco Pinto e Sottomayor, Banco Portugues de Invetimento, Credit Franco Portugais, Credito Predial and Imperio Insurance company, is launching itself with an Es7bn portfolio.

It has taken an improvement in the quality of Portuguese real estate to make such funds possible: their emergence is accompanied by the birth of Property Management companies specialising in upmarket business or residential property.

The next major new local institutional investors to delve into the stock and bond market will be management companies of new pension schemes for private or public sector companies now starting up, run by MDM and the newcomer Deca whose front runners are McKinsey alumni and which is involved in the management of Unifundo.

Other products are inching along the bureaucratic pipeline waiting to be ministerially-approved in a liberalising (operators hope) package of decree laws that the Finance Minister vows will appear in the next three months: portfolio management companies, multi-fund unit trust management, allowing a firm to handle a mix of trusts - high and low-risk, close-ended funds and stock brokerage firms (as opposed to individual brokers with no minimum capital requirement now operating).

In advance of this legislation, the first money market broker, Fincor, backed by the large French brokers Finacor, has opened shop - for now impeded by a decree law that keeps it off the foreign exchange market, though this is an intrinsic part of any fully-fledged money market - to a largely advisory capacity.

The field gets bigger every day. The runners are getting a little skittish when stewards insist on defining how they can walk before they let them run.

Diana Smith

PORTUGAL'S UNIT TRUSTS

Invest - started May 21 1986. Backers: CISF, Lloyds, Banco Nacional Ultramarino, Banco Fonsecas e Burnay. Current portfolio value: about Es36bn.

Fipor - Started February 26 1987. Backers: Banco Portugues do Investimento Banco de Comercio e Industria, Banco Portugues do Atlantico, Banco Pinto Sottomayor, Credit Franco Portugais). Portfolio value: about Es15bn.

Unifundo - Started June 8 1987. Backers: Barclays. Portfolio value: Es5bn.

Valor Mais - Started June 22 1987. Backers: Banco Totta e Acores. Portfolio value: Es5bn.

Multipar - Started October 15 1987. Backers: Banco Espirito Santo e Comercial de Lisboa, Banco de Fomento Nacional Societe de Banque Suisse, MDM, Bonanca Insurance Co. Portfolio value: Es7bn.

Fundinter - Start up due June 1988. Backers: Banco Borges e Irmao, Banque Nationale de Paris, Fidelidade Insurance Co. Initial Portfolio value: Es 7.5bn.

The Rua Augusta, in the heart of Lisbon's business district

Savings banks are surviving the spending boom

Diligent savers

THE PORTUGUESE, working at home or abroad, are diligent savers. Despite economists' concern that consumption in the fast-growing economy is close to overheating, with an ever-increasing volume of fridges, cars, stereos, video recorders or washing machines being sucked into the home, savings remain relatively undented.

The modern savings bank in Portugal has roots going back well over a century, although savings institutions run by religious authorities date from the 16th century.

Today the biggest is the state savings bank, the Caixa Geral de Depositos, accounting for 75 per cent of all savings bank business, 25 per cent of all deposits throughout the banking system while issuing 25 per cent of all credit.

The remaining 25 per cent of the savings sector is shared between the Credito Predial Portugues, which largely finances real estate and mutual associations, the largest of which is Montepio Geral/Caixa Economica de Lisboa. One of the largest regional ones, the Caixa Economica de Funchal on Madeira, recently transformed itself into Banif, a commercial bank.

The state's Caixa Geral de Depositos, "the Caixa", towers above the field. Its 1987 profit of Es21bn is as large as that of all the other financial institutions operating in the market put together, and a 62.8 per cent increase on the 1986 figure.

It is the custodian of Government deposits such as the Treasury accounts, and the founding capital of new companies, and handles bankruptcies. It has a central role in mortgage credit (it was the source of two-thirds of all mortgages last year) and the financing of housing construction.

But the Caixa's principal objective is to fund investment with medium and long-term loans to the civil service and publicly-owned industry, fisheries and agriculture, trade and infrastructure development.

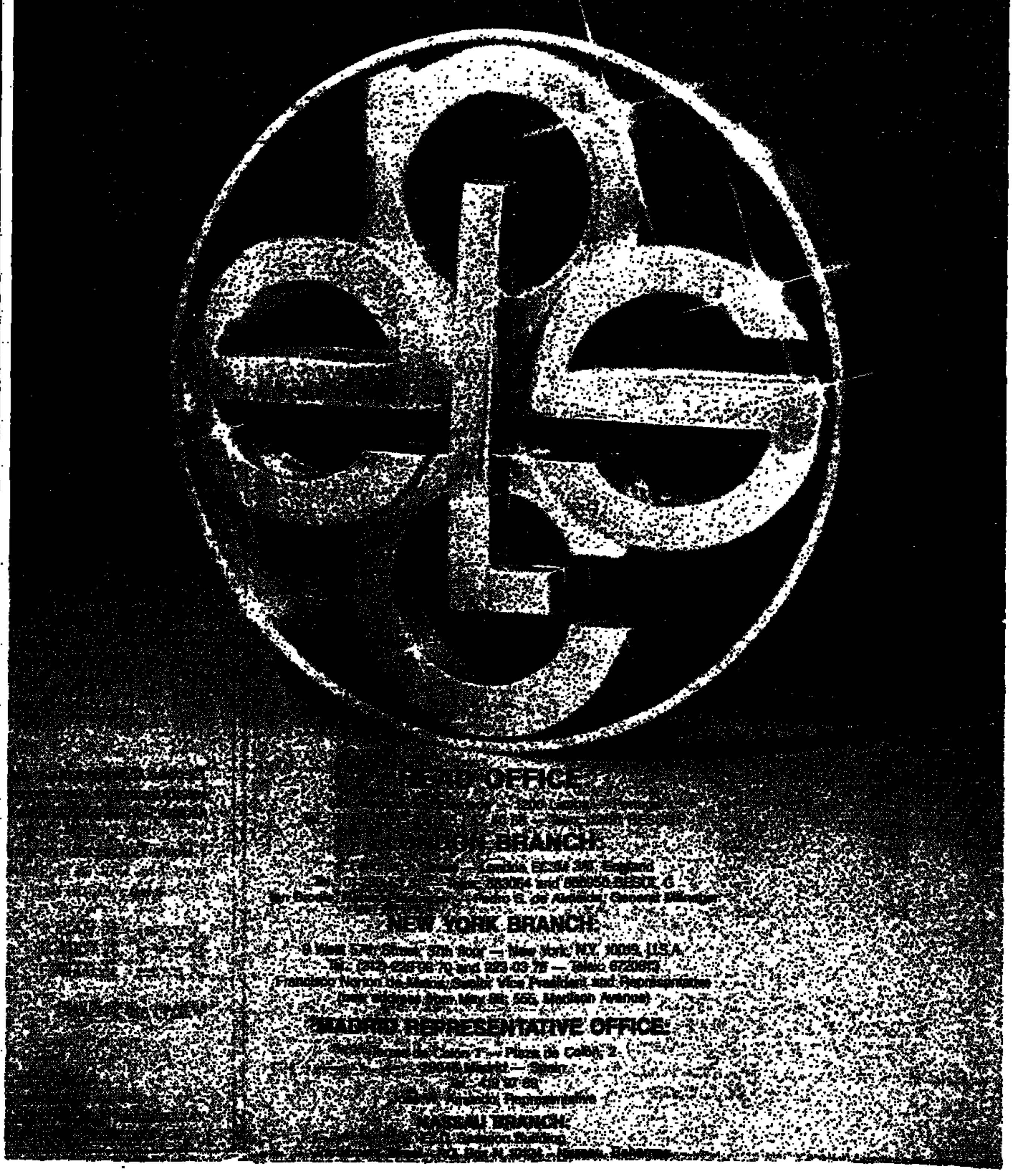
Since 1980, the Caixa, on behalf of the European Investment Bank, has granted loans for small and medium-sized enterprises in industrial and tourism sectors. It emphasises priority areas such as environmental improvement, energy conservation or development of renewable energy resources.

Total deposits were Es1,875bn, 13.2 per cent up on 1986 - a rather smaller gain than the 30 per cent increase achieved in 1985-86 partly due to the rise of alternative investment opportunities.

This factor has also affected credit, already under pressure from officially-imposed credit ceilings - a sore point with small businesses - although some relaxation is expected. However, non-mortgage credit issued in 1987 was up by Es40bn, substantially less than the Es58bn increase the previous year.

The bank continues to develop new products, like the certificates of deposit. These carry a high minimum value of Es5m and are aimed mainly at companies or high income individuals. They have been in circulation

Continued on page 5



From a modest base the sector has suddenly mushroomed to take a 5 per cent share of the investment pie

Eager leasing companies triple their turnover

PORTUGAL'S leasing companies, having acquired a taste for the possible in a small regulated market, have developed a voracious appetite for business.

From a forlorn Es1bn start six years ago, leasing plugged away, reaching a relatively respectable Es19.5bn by the end of 1986.

Last year Portugal's seven leasing companies tripled their 1986 turnover, did more than Es51bn in business, and enlarged their share of the investment pie to 5 per cent.

Portugal's economic boom attracted a 17 per cent increase in investment in 1987. A variety of alluring tax incentives accounted for much of leasing's new-found prosperity.

By law leasing in Portugal is limited to financial leasing, that is, company investment. For now the Government's inflation control means some discouragement of individual consumption, while not rebuffing badly-needed investment.

Mr Luis Ferreira, of the association of leasing companies and who is general manager of Sofinloc, one of the top two leasing companies, considers that when the economy is more robust, the market will open up further.

In a country famous for suffocating red tape, leasing companies have found that their trump card is speedy service.

"Leasing's success comes from the type of service it provides. Clients want fast, simple service, an alternative to bureaucratic delays," says Charles Lange of Euroleasing, whose volume of new business, concentrated in Lisbon and Oporto, increased 170 per cent last year to roughly Es7bn.

The leasing companies were launched in Portugal in the early 1980s. Their main shareholders were international banks which wanted a stake in Portugal's future, and major national banks.

Bank links provide leasing companies with a large proportion of their business.

This symbiosis boosted last year's leasing bonanza after government-imposed credit ceilings forced banks to restrict lending and recommend alternatives. Leasing was an attractive alternative.

However, Leasinvest, the market leader, feels it is time to loosen bank apron strings and establish a strong, independent client-winning network.

Clients want fast, simple service, an alternative to bureaucratic delays. The companies are pushing for more flexible terms, write-off values and periods of payments, and want to be allowed to obtain funds from interbank markets

Mr Alexandre Pinhal, the general manager, says: "Our strategy is to establish operations around the country, not just along the industrially-developed coastline."

For the moment legislation keeps this highly profitable business in the hands of motor companies' credit purchasing programmes and out of the lessor's grasp.

Leasing companies are pushing for more flexible terms, write-off values and periods of payments.

Funding, already troublesome last year, is expected to become an acute problem for lessors this year as credit limits tighten. As a result, leasing companies are asking to be freed from limits restricting them to getting funds from banks, share issues or shareholders, and be allowed to buy from interbank markets.

Leasing in Portugal is generally confined to small ticket items. Lessors are reluctant to take on large equipment credit risk, partly because the Bank of Portugal prohibits any one leasing company from servicing any one client for an amount over 75 per cent of the leasing company's capital. Big tickets (more than Es 400m), such as high-cost medical equipment, have been carried out by a consortium of lessors.

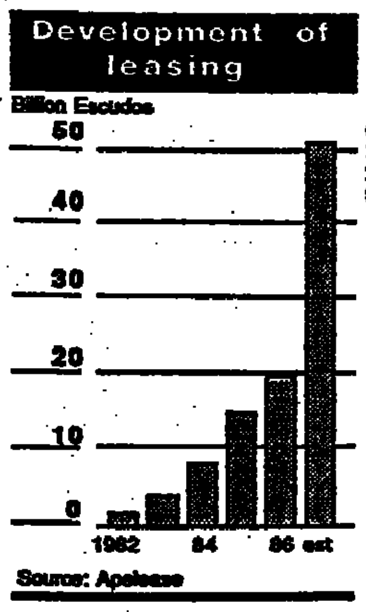
Among the areas of strongest growth last year were transport goods (ranging from company cars to heavy-duty trucks), computer equipment, equipment for manufacturing industries and civil construction supplies. So far, almost all clients have exercised their option to buy.

Although operating leasing has yet to be approved, equipment suppliers offer a parallel renting service. Some leasing companies feel the operating market has yet to develop, as business has just begun to renew its input.

Others would like to add operative leasing, buyback arrangements with suppliers, remarketing agreements and residual value buy-outs to their list of services to meet future competition.

Lessors have preferred low-risk clients to potentially higher business volume. Some attribute this to the inherited conservative banking mentality: most leasing company managers are former bankers.

Lessors are also uncomfortable about the slow judicial system if they have to repossess. However, non-payment problems are now less acute than they were in the 1983-85 recession.



Source: Apeleasa

The most exciting sector last year was real estate. Backed by Portugal's largest savings bank, Caixa Geral de Depositos, Imoleasing, the country's only real estate leasing company, tripled new business to Es2.1bn in 1987 from the Es 765m total it registered in 1986. It predicts growth of 60 to 75 per cent through 1988-1989.

Office space and warehouses accounted for roughly 70 per cent of Imoleasing's operations, focussed on the urban centres of Lisbon, Oporto, Coimbra and sections of the Algarve tourist resorts.

But business could be even better: Imoleasing feels that the legislation needs some adjustments. These include simpler contracts, lease-backs, early buy-outs by the clients and easier rules for real estate leasing in the tourist sector.

Imoleasing will not rule the real estate roost for long. Two new companies are expected to move into the market this year; more will probably follow. Increased competition should balance the market and allow companies to expand to include larger industrial properties by pooling their efforts.

All told, leasing is expected to grow by 50 to 60 per cent this year. Several new companies are tipped to enter the market. "Competition, which drove the volume of business up but profit margin down, will get stronger," says Mr Ferreira.

Companies are preparing for the fight. Sofinloc is already considering diversifying; Leasinvest's shareholders are about to expand into real estate.

Directed by young talent, most leasing companies love the fast pace. "As we are small companies, we are very flexible and can follow market changes," says Mr Jose Gomes da Costa of Euroleasing.

However, one lessor warns, the 1992 deadline for the wide-open EC market will "come as a great shock if the Bank of Portugal does not shake off its overbearing paternalism and over-rigid control, and accept what must happen to the economy."

Sharon Behn

Spanish-Portuguese links

Investment and joint ventures dissolving the old barriers

PORTUGUESE TRAVELLERS will continue to lose their composure whenever a Spanish air hostess refers to a Lisbon-Madrid trip as a domestic flight. And they are never likely to accept a linguistic explanation of why they understand Spanish but their own tongue appears to baffle their Iberian neighbours.

However, more tangible barriers between the two countries are rapidly dissolving as a new economic relationship flourishes within the EC to dispel centuries of mutual distrust when Spain and Portugal lived back to back, respectively disdainful and apprehensive of each other.

Trade has boomed since most protective barriers were abolished when the two countries joined the Community in 1986, although Portugal imports twice as much from Spain as it exports.

However, Spain's newly-found fascination with its neighbour is most clearly evident in soaring investment, which increased more than sevenfold in 1987 to Es12.4bn, closely rivalling Britain as the leading foreign investor in Portugal.

This could have provoked a negative reaction in Portugal, where it used to be said that "Spaniards invade where other countries invest." But an initial wave of aggressive acquisitions by Spanish companies aiming to defend their home markets from Portuguese exports in sectors such as furniture, glass and sanitary ware was short-lived.

Today, a large majority of Spanish investors are looking for Portuguese partners to join them in export ventures.

"Businessmen have led the way in overcoming old antagonisms and bringing the two countries closer together," says Vasco Corregedor da Fonseca, a specialist in Iberian relations.

"They are showing Portugal how to look positively at the opportunities and advantages of having an economically powerful neighbour, instead of going on the defensive."

Political developments have kept pace with industry as the two governments engaged in tough and protracted negotiations to resolve a series of thorny issues, among them fishing rights, and the routing of a motorway linking Portugal's industrial north with the rest of Europe.

Madrid's fears that third-country products could escape Spanish tariffs by passing through Portugal - which pays no duty on industrial exports to Spain - have been allayed by a rules-of-origin agreement determining a minimum Portuguese input of 30 to 40 per cent value-added.

The approximation of Spain and Portugal's economies is nothing approaching that of Britain and Ireland or France and Belgium, but it is inevitable that a similar relationship will develop.

At the same time, Spanish investors anxious to take advantage of Portugal's lower labour costs and greater export experience are providing capital and intermediate technology for the expansion of Portuguese industry.

Joint ventures with Spanish companies are also providing Portuguese exporters with the distribution networks and sales structures they lacked in a difficult Spanish market.

Banking facilities are being developed to support the increase in bilateral trade. The Banco Português do Atlantico (BPA) Portugal's largest bank, has been granted permission to operate a full branch in Madrid, joining representative offices opened there by the Banco de Fomento Nacional and Banco Espirito Santo.

Spain's second largest banking group, Hispano Americano, set up an investment company in Lisbon last year, and the giant Banco de Bilbao recently received permission for a similar company in Lisbon.

For years, Banco Exterior and Banco Central have sought a licence to operate in Portugal, but the only trade-off so far has been one Portuguese bank branch (BPA) for two Spanish investment companies, leaving Exterior and Central still patiently queuing.

"Portugal's yardstick is the impact each bank will have on the other country's economy," says one banker.

Peter Wise

Savings buoyant against spending

Continued from page 4

only for eight months so far, and their development has been slow, the bank acknowledges.

Potential interest has been dampened by insufficiently attractive tax incentives. But the Caixa argues that their advantage, apart from the floating rate of interest which follows that of term deposits, is the degree of liquidity they can offer in the secondary market - which, it admits however, has not yet taken root in Portugal.

The Caixa, like most other financial institutions, is running an aggressive programme of diversification. The bank has introduced two leasing companies, one leasing equipment and another property, as well as Fundimo - a property unit trust in which it is the major participant.

It is involved in Promindustria, a venture capital company, and intends to establish a unit trust and an investment company in the short term.

Unlike the Caixa, private savings banks have had to operate under 1979 legislation which more or less restricts them to collecting sight and term deposits and providing mortgages. They may not go into international operations and are subject to a range of constraints and special authorisations if they wish to work with corporate customers.

Montepio Geral accounts for 10 per cent of all savings business and, while busily expanding, has focussed on construction finance and tourism development.

"The building business in Portugal is going to be very good. We want to work in international operations because a lot of our clients in the building trade are working in the tourism areas, mainly the Algarve, and they are selling to foreign buyers," says Vitor Ruivo, Montepio's president.

He confirms that British building societies are already offering loans in the Algarve, not only to purchase buildings but also for timeshare deals. "We are the only bank that has financed timeshare properties and we have developed good knowhow. We think we could do that in the UK or Germany because they are beginning to buy here."

Montepio has over 1m accounts. Total deposits for 1987 stood at Es117.97bn ($906m), an increase of Es4.224bn, while issued credit climbed Es18.027bn to Es109.46bn.

While Montepio does not want to change its mutual association ownership, nor its traditional base with the small saver, it does want the legislation changed to allow for more freedom of operation. "Our idea is to do as the British banks have done, and sell other products, not only money, but insurance, travel agency services - almost anything," Vitor Ruivo explains.

Montepio is already on the diversification road. It hopes to create a merchant bank, has with permission started two insurance companies, and intends to operate pension funds.

"We want a synergy of operations. If we offer a construction loan, the borrower is obliged to take out insurance; this is a good central way for them to do it."

Both the Caixa and Montepio foresee some consolidation in the sector under pressure from the increasingly brisk diversification. Montepio has already absorbed one small bank from Abrantes and is in discussion with another in the Azores.

But with the prospect of free establishment in Portugal for any savings institution in the EC less than five years away, there is no prospect of things quietening down and competition is assured.

Akwe Amosu

A computerised game of chicken

ANTHONY HARRIS
in Washington

YOU MIGHT THINK that the US has enough problems with debt, deficit and difficult partners to sustain a good deal of economic hot air production, but at the moment the only hot topic seems to be rather an old one, last October's crash. There is not much else to talk about. The current situation looks quite good, the politicians have nothing of consequence to say and the market is quiet.

The crash, on the other hand, is still good for a lively argument among practitioners, politicians or academics. It is not even clear whether it was a near-disaster, or President Reagan's latest stroke of luck. The current wisdom is that it will depress consumer demand by a bit under 1 per cent through 1988, thus leaving room for a timely improvement in the trade balance without the need for any difficult political decisions.

Mr Alan Greenspan of the Fed recently felt compelled to deny before Congress that it had actually been a very good thing. But it certainly has been for him. His management of the crisis, which he described in beautifully flat language for the Senate Banking Committee's hearings on the affair, has given him an instant charisma which it might otherwise have taken years to establish — although, as he modestly stresses, he was simply doing the basic job of any central banker. His views will therefore be influential and very sensible they are.

"Stock prices reached levels which stretched expectations to incredulity," he said in his evidence. "Something had to snap. If it didn't happen in October, it would have happened soon thereafter." This is rather an obvious point, but he went on to make one which is not so obvious, when he turned the conventional wisdom about programme trading on its head.

"Many users of portfolio insurance programmes, especially those driven by computers, believed that they could limit their losses in a declining market and hence were willing to be more than usually exposed," he explained. In other words, the real damage done by portfolio insurance strategies was not so much to cause an unprecedentedly rapid fall, but to cause the excessive rise which made it inevitable.

This is a most important truth. But it is also important not to draw wrong conclusions from it. Mr Greenspan threw a polite wet blanket over some of the current nonsense about computers and derivative markets being dangerous in themselves. They are merely new ways of doing what investors have always been trying to do: to run their profits to the limit and sell at the top. All that technology achieved was to permit a fall in one day which took two days, without computers or stock index futures, in 1929. "We must be careful not confuse symptoms with causes," as he said.

There is a little more to it than that, though. There is still something of a mystique about computers, especially if you have one and the other fellow hasn't. The most sensible study of the crash which I have yet seen, by Professor Robert Shiller of Yale, points out that only about a tenth of the institutions were using computer trading programmes. These seem to have started life as comparatively crude affairs, triggered off by fairly big movements in prices.

Their sell signals became so predictable, and caused such sharp market movements, that the real sophisticates started using anti-insurance programmes, designed to buy when the insurance programmes were in electronic panic.

The designers of insurance programmes responded, I suspect, by making their creations more sensitive. There was certainly less trouble with the triple witching hour for a spell before the crash. In other words, it was by protecting the markets against a series of small shocks that the technicians prepared the ground for the big one. What started out as an effort at prudence had become a computerised game of chicken.

The other trouble, according to Mr Greenspan, was what he called an illusion of liquidity — the belief among the insurers that the market would be able to execute their sell orders when the time came. But the implication of this, that the fall would have been less if the market had been truly liquid, is not obvious.

I prefer Mr Greenspan's first shot: the possession of a programme made the institutions more reckless than they would otherwise have been. These were especially prudent institutions, it should be remembered. The naturally reckless do not spend a fortune on insurance. That leads to a relatively comforting conclusion: the programmes have no doubt been changed to run things a good deal less close to the edge. Burnt fingers and balanced portfolios will do more than new rules to prevent future trouble.

Indeed, new rules may make matters worse. The stock exchange is experimenting with cutting the programme traders off from the Dot settlement system when prices move more than a predetermined limit. Mr Greenspan wants any such limits to be wide. The futures traders complain that any limit at all could cause a major dislocation when futures and portfolio positions cannot be matched.

It is much the same with the proposal to have ordered suspensions of trading when movements are large. This effort to restore the leisurely pace of the past might reduce heart trouble in the markets. But as Mr Greenspan pointed out, the fear that a "time-out" might be triggered could also provoke an ugly rush for the exits. It may seem Pollyanna-ish to hope that the institutions have now learned sense, but it is really much the best hope we have.

And what triggered the panic? Professor Shiller, with a display of common sense which should shame other economists, has actually surveyed some hundreds of investors to find out what made them nervous. Panic was in the air, nurtured by forbidding forecasts from such authorities as Mr Stephen Marris (ex-OECD) and Mr Ralph Bryant of the Brookings Institution, who called his own study of the adjustment problem "The Pit and the Pendulum". Asking for it, you might say.

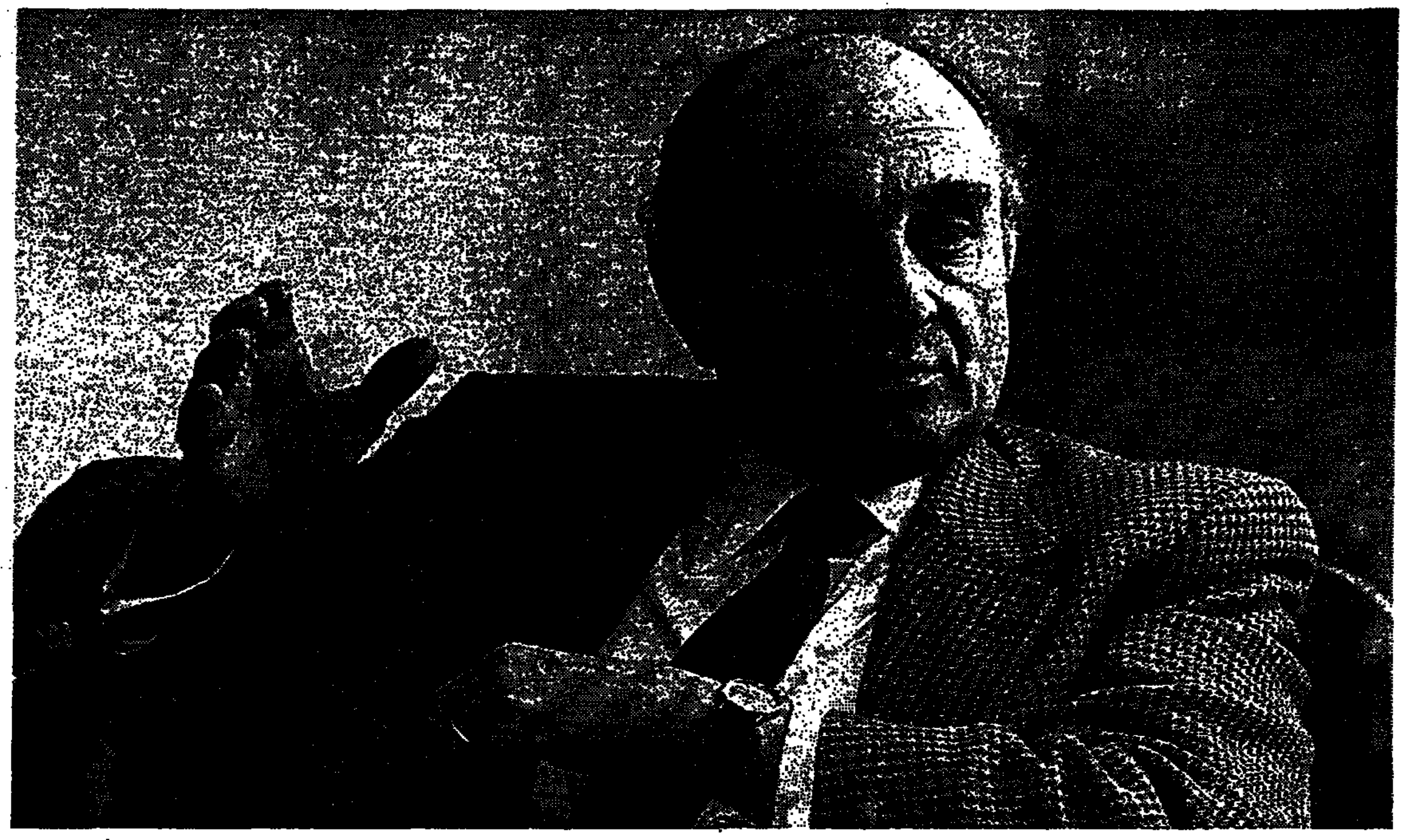
Hair shirts are out of fashion at the moment, despite the best efforts of the Harvard School of Pessimism. The Administration is campaigning early with a very boring display of self-congratulation. In fact it seems that all members of the Cabinet are using the same speech notes.

The Democrats, although they know that if the economy remains strong, they may very well miss the White House again, are saying very little. They clearly do not enjoy thinking what they might have to do if the economy went wrong, and they won. President Grover Cleveland, who had to put the US through austerity after the crash of 1893, lost control of his own party. *Absit omen.*

INTERVIEW

The turbulent aristocrat

David Marsh talks to Otto Lambsdorff, West Germany's political bogeyman



OTTO FRIEDRICH Wilhelm von der Wenge Graf Lambsdorff is the perpetual *enfant terrible* of West German politics.

Although he says, with a characteristic mixture of grin and scowl, that he finds neither part of that appellation flattering, no other politician in the West German capital appears to be driven by quite the same restlessness as the aristocratic former Economics Minister.

"Der Graf" (the Count), who is the great nephew of a former Foreign Minister of Czarist Russia, has lost one empire and is yet to find another. Four years ago he became the chief casualty of the so-called Flick affair — he was driven from the Economics Ministry job after facing charges of accepting illegal party contributions from the industrial group.

Mr Lambsdorff, 61, is now parliamentary spokesman on economic affairs for the liberal Free Democratic Party (FDP), the junior partner in the centre-right Bonn coalition; and he is preparing for perhaps his final chance of a full-scale political comeback.

He has always defended free market economic policies, which are no longer particularly in favour in Bonn. "More market, less state" is his favourite rallying call.

He cuts a trenchant figure, ever ready with an acerbic quote for the press and broadcasters, or with a stinging jibe in Parliament — and this is as likely to be levelled against his coalition partners as against the opposition Social Democratic Party (SPD). His stout walking stick, testifying to the loss of a leg on the eastern front at the end of the Second World War, seems now to be as much an instrument of chastisement as a physical prop.

Mr Lambsdorff is one of the few Bonn politicians not afraid to criticise the corporatism of West German trade unions and big business which, he says, is one of the main reasons for high unemployment and the gloomy prospects for growth. He is especially unpopular on the left because of his leading role in prompting the FDP to desert the coalition with the SPD in October 1982. Partly because of this episode, he is regarded with a respect not entirely free of suspicion by the conservative parties with which the FDP now governs.

His position as the trade unions' bogeyman has been strengthened by his criticism of the way steelworkers in Duisburg chose to protest against the planned closure of Krupp's Rheinhausen steel plant — they downed tools and halted traffic. Faced with a series of abusive phone calls, including threats to his life, Lambsdorff has taken court action against Der Spiegel magazine to prevent publication of his private telephone number.

But the most bruising battle could be still to come. He will be the main challenger for the FDP leadership later this year if the present chairman, Mr Martin Bangemann, seeks to move to Brussels for a job on the European Commission. It is still not certain whether Mr Bangemann, who took over as Economics Minister following Lambsdorff's departure, will give up either job.

PERSONAL FILE

1926: Born December 20
1947-1955: Trained as a lawyer
1951: Joined Free Democratic Party
1955-1971: Banking and brokerage activities, ending up as general manager of the private bank Trinkaus and Burckhardt
1971-77: Board member of Victoria insurance company
1972: Elected member of the Bundestag
1977-84: Federal Economics Minister under Chancellors Schmidt and Kohl. Resigned over the Flick affair
1984: FDP parliamentary spokesman on economic affairs

Lambsdorff's candidature would represent a bid to re-enter the political fold after the Flick affair. His 18-month trial, which ended in February last year, was the high point of an intensely politicised criminal investigation into illicit party financing and tax evasion by a series of industrial groups, led by Flick. Lambsdorff was acquitted on the more serious corruption charges, but fined for tax evasion.

Talking intently in his Bonn office, beneath a larger-than-life portrait of Bismarck, he says the experience did have some positive aspects. It demonstrated the support he has among his FDP colleagues and gave him "a bit more distance and calm" in relation to the politicking in Bonn. And the succession of jobs he has since had on company boards have provided him with greater earnings than he would have enjoyed as Economics Minister.

Asked whether he now feels completely rehabilitated, Lambsdorff juts out his jaw and says, "I believe — in agreement with my friends in the FDP — that I am capable of being placed in any (political) office."

Yet a senior Bonn official, who worked closely with him at the ministry, hints that the opprobrium of the Flick affair has not yet fully dispersed. He calls Lambsdorff "a Prussian puritan" who was more hurt — both personally and for his family — by the long-running scandal than is generally thought. "He is thinner skinned than you think," the official says.

Mr Lambsdorff himself stresses that he is interested only in the FDP chairmanship. On no condition, he says, will he return to the Economics Ministry — "I did this for six and a half years and one shouldn't try for a repeat performance."

Nor is he ready to accept any other ministry portfolio. One reason he gives is that a party chairman has more opportunity to speak his mind plainly outside the Cabinet. That sounds a little ominous for Mr Helmut Kohl, the Christian Democrat Chancellor, who is already having difficulty controlling his fractious coalition.

Lambsdorff has already done plenty of plain speaking on the Government's economic policies. His background in banking and insurance has led him to believe that politicians tend to be out of touch with business and commerce.

According to him, the Finance Ministry has usurped too much of the economic policy-making role, which during the 1950s and 1960s was the preserve of the Economics Ministry. In his diatribes against the caution shown by Mr Gerhard Stoltenberg over cutting taxes, Mr Lambsdorff has been as sharp a thorn in the side of the Christian Democrat Finance Minister as any SPD politician.

"I do not criticise the Government's goals or methods. What I criticise is that these methods have not been applied with sufficient scope, energy, purpose and speed," he says.

He accuses Mr Stoltenberg of failing, a year ago, to boost the economy through extra tax cuts to offset the impact of the dollar's fall. Now, he says, because of a drastic increase in the West German budget deficit caused by slow growth and the low dollar, it is too late for the Government to think about bringing forward tax cuts planned for 1990. "There is no longer any manoeuvring room."

Asked about his relationship with the Finance Minister, Mr Lambsdorff says, with disarming simplicity, that he and Mr Stoltenberg are from different parties. "At elections, we are rivals for votes."

He says that the Government's economic growth projection of 1.5 to 2 per cent for 1988 is too optimistic. "I expect 1 to 1.5 per cent." And, like the former SPD Chancellor Mr Helmut Schmidt, he is pessimistic about the US economy. He believes a recession is unavoidable there this year or next.

Now that Bonn has lost the opportunity to stimulate the West German economy through tax cuts, Mr Lambsdorff is concentrating his fire on the Government's lack of drive in deregulating the economy. He hails Japan as an example which the Federal Republic should follow in areas like privatisation and cutting losses in state industries. "Japan Airlines is floated on the bourse. With us, just look at the discussions over (privatising) Lufthansa."

He says the main reason why no alternative jobs are available to the Ruhr steelworkers, who face redundancy as plants close, is that "this country is over-regulated. Jobs cannot be created in an environment of inflexibility, of high costs and of labour markets where you can't take any risks because any employees who are hired cannot be made redundant without very high costs.

"Each regulation by itself makes sense. But the sum across a thousand areas is like a net laid over the country, which people find impossible to tackle — and that's why there are no jobs."

What would he do if he were in office? His answer is not particularly satisfactory; he first runs through how difficult everything is. "An economics or finance minister cannot decide by himself. He has the social policy committee of the Christian Democratic Union; he has the retailers' association, which is against changing the law on shopping hours; he has the unions, who do not want Saturday working, and the churches, who protest against the smallest move towards work on Sundays."

Then Mr Lambsdorff lists a few areas where changes could be made: by extending shopping hours ("we are making ourselves the laughing stock of the western world"), by deregulating the post and telecommunications system ("we are partly on the right road") and by liberalising labour market laws.

Whatever the strains on the Kohl coalition, Mr Lambsdorff says they are not comparable with the last period of the Schmidt government in 1981/82, when the FDP was perpetually at loggerheads with the SPD over economic and defence policies.

With those memories in mind, he rules out any switch of FDP allegiance back to the SPD after the next general election in 1990. "I see in economic, social and finance policies, as well as in areas of foreign and defence policies, no basis for co-operation with the SPD."

That message may offer a small measure of consolation to Messrs Kohl and Stoltenberg. But if the irreverent Graf Lambsdorff becomes FDP party chairman, life for the conservative elements of the coalition is likely to be even more uncomfortable than it is now.

Judging causation and liability

JUSTINIAN

THE WAY lawyers approach the problem of causation is, as one would expect, thoroughly pragmatic. Both in science and philosophy, cause has proved difficult to define. But the law is interested in tracing physical phenomena only in so far as they indicate responsibility in a particular individual or legal person. A medical inquiry might conclude that the cause of death in a road accident was multiple fractures to the skull, while a legal inquiry might decide that the cause of death was the driver's negligence.

If I drop a match on a hot day and, as a result, a house two miles away is burnt down, am I liable to the house-owner? The physical contributory causes may be many. The law starts by focusing on my responsibility for starting a chain of causation. It seeks to solve the problem of where liability begins and ends on broad, common-sense lines, rather than by any scientific analysis that may prove all too subtle for the pragmatic lawyer.

Hence, the law asks the simple question: "Was the conduct of the defendant a substantial factor in bringing about the final result?" There may be a variety of negligent acts by the wrong-doer in performing his duty to the victim, but one or more of those acts must be shown to have substantially caused the victim's injury. The further question for the courts is always: who has the burden of establishing causation?

Last week, the House of Lords, in Walsh v Essex Area Health Authority, set aside an award of £116,119 to an infant plaintiff who had been blinded at birth by a cause medically related to his prematurity, and ordered a retrial of the issue, whether the proved negligence of the health authority had caused or materially contributed to the child's blindness.

The victim had been born three months prematurely and had suffered from the afflictions associated with premature birth. In particular, he suffered from retrolental fibroplasia (RLF), an incurable condition which caused him total blindness in one eye and severely impaired vision in the other. The action against the Health Authority alleged that the RLF had been caused by an excess of oxygen tension in the blood stream. This, it was claimed, was attributable to lack of proper skill and care in the management of the baby's oxygen supply.

The claim of negligence concerned the first day and a half of life. The standard medical practice is to pass a catheter through the umbilical artery into the aorta so that the level of partial pressure of oxygen could be measured by an electric sensor at the tip of, and by blood samples from an aperture in, the catheter. It was also standard practice to check the location of the sensor by X-ray after the insertion of the catheter.

In this case, the catheter was mistakenly inserted into the baby's umbilical vein, so that the sensor and the sampling aperture were mislocated. This led to a false reading of the level of partial pressure of oxygen. The medical staff of the hospital failed to notice the mistake, and the court of trial found them negligent.

There was a number of different agents which could have caused the RLF. Excess oxygen was one of them. But no one could tell for certain whether excess oxygen did or did not cause or contribute to the RLF suffered by this baby. The occurrence of RLF following a failure to take a necessary precaution to prevent oxygen causing RLF, however, provided no evidence and raised no presumption that it was excess oxygen rather than one or more of five other factors which could cause or contribute to RLF. Since the trial judge had not resolved the conflict of medical evidence, there was no alternative but to allow the appeal and order a retrial.

The House of Lords did, however, provide some clear guidelines as to the approach which courts should adopt. In the process the Law Lords explained a decision of their own in 1973. In that case, an employee worked in a brick kiln in hot and dusty conditions, where dust adhered to his sweaty skin. The employers had not provided adequate washing facilities; hence, the workman had bicycled home with his body caked in brick dust. He subsequently contracted dermatitis caused by the brick dust, although the precise mechanism of causation was unknown. But the medical evidence was to the effect that the provision of showers at the place of work would have materially reduced the risk of dermatitis. The workman failed in his action in the lower courts because he had not discharged the burden of proof of causation. But in the House of Lords he won. It was the differing reasoning of the Law Lords on that occasion which had caused difficulties to trial judges that have now been set at rest.

The principle is that the onus of proving causation lies on the person asserting it. To that end, their Lordships concluded that trial judges should adopt a robust and pragmatic approach to the finding of primary facts. Where expert witnesses were diametrically disagreeing about complex technical questions within their own field of expertise, the trial judge's advantage in seeing and hearing them give their evidence is no less important than when the judge has to resolve some conflict of primary fact between non-professional witnesses who testify about rather more mundane matters, such as a collision on the roads or an industrial action.

Once causation is established, an act is the "legal cause" of a consequence only if the law considers that liability should be imposed for that consequence.

Eugene Onegin/Edinburgh

David Murray

Like the Royal Opera, Scottish Opera has revived Chaikovsky's *Onegin* in Russian – with the advantage of a Russian singer in the title role. (And the disadvantage of doggerel-English Pushkin projected upon the drop-curtain before each scene, too little to spell out the action but enough to make Pushkin seem ridiculous: the most implacable opponent of surtitles would have to prefer them here.) None of the cast sounds uncomfortable with the language, though the Edinburghers who have been filling the enormous Playhouse for *Così fan tutte* in English were thinly spread for the Russian opera.

The visiting hero is the Leningrad baritone Sergei Leiferkus, joining the company for the third time. The admiring London reports of his performance (he appeared in the role with his home company here last summer) can be corroborated: richly sung, his nervy and astutely sensitive Onegin captures exactly the character that eludes his current Covent Garden rival. The words tell sharply, and his urbane, ironic stance crumbles in the face of ill fortune to strong dramatic effect.

Sergei Leiferkus as Eugene Onegin

The poet Lensky is the sturdy Anthony Roden, who has a useful volatile edge and whose tenor is in ringing form. If his principal aria was a trifle stiff, it was only because it was stiffly accompanied; Alexander Gibson's workmanlike conducting does not make the score finest, nor does he choose to cultivate anything much below a consistent *forte*. One missed Mark Ermler's expert urgency. The dances go well (the Polonaise in St Petersburg boasts an agreeable hint of Scottish country-house dancing), and the chorus is full-voiced.

Tatyana is the young Polish soprano Joanna Kozlowska, whose fresh, open timbre enhances her disarming portrait of the bookishly romantic teenager at the start. She cannot aspire yet to Madame Freni's authority at the dénouement, but makes her simple dismay touching. John Tranter offers an excellent study of her elderly husband Prince Gremin; so does Fiona Kimm of her sister Olga, properly lively and skittish – and the girls blend much better in their offstage duet than the London pair. The balance between Mama and Nurse is reversed in this version, with Menai Davies too young as the latter to suggest any depth of folk wisdom, but Madame Larina represented as a sonorous earth-mother by Anne Collins (a distinguished Erda, of course).

The old David Pountney production is now staged by Ceri Sherlock, who makes nothing special of the fateful duel but organises the more populous scenes efficiently. Roger Butlin's sets deserve cleverer lighting – their handsome elements have been spaced out thriftily to fill more of the Playhouse stage, which doubtless raised problems. The whole makes a creditable evening, even stretched by a pair of twenty-minute intervals, with Leiferkus as its indispensable linchpin.

Savannah Bay/Battersea Arts

Martin Hoyle

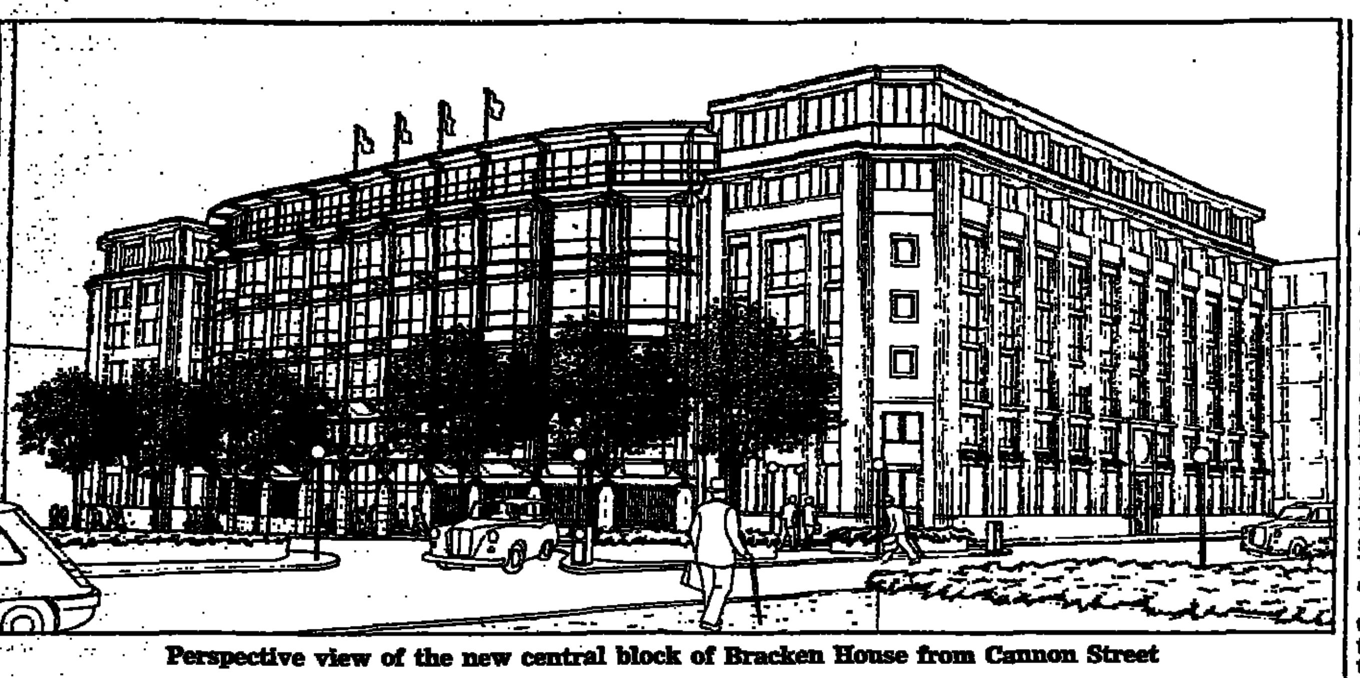
With a sense of timing that illustrates a sublime gift for thudding dramatic irony, the Arts Council has announced a staggering cut of 34 per cent in its funding to Foco Novo just as that company is presenting the British première of a play by one of the world's leading writers with two of the most intelligent actresses to have graced the London stage.

Not that this important event takes place in the West End or on one of our classic stages. This touring company is dedicated to taking quality writing, whatever its provenance, to areas perhaps not the intimate stamping-ground of the mandarins of 105 Piccadilly. Marguerite Duras' enigmatic 100-minute dialogue for an old woman and a girl is currently at the Battersea Arts Centre, Lavender Hill. Cheltenham, Sheffield and Barnet are scheduled.

"You are the daughter of the child that died," says the older woman, as if peering through a mist. She recounts a story, anxiously prompted by the girl who obviously knows it already, of a 16-year-old in the sun and the sea who found a love so intense that, after giving birth to a child, only a self-willed death was left. The girl cues the story-teller, presumably her grandmother, as if prising out the last secret to establish both their identities. "Yes, yes, an actress – that's what I was," says the grandmother, uncertainly at first; and the girl closes in with "who died that dull day?" as, for the first time, the old woman reaches the end of the tale. Throughout, the piecing together of memories, with the hint that some may be make-believe or wishful thinking, recalls many of Mme Duras' screenplays from *Hiroshima mon amour* on.

Susan Todd's direction takes agonising risks with the audience's patience and the players' concentration by leaving stretches of action without dialogue as the women wander round the set or the girl drapes her grandmother with the gimcrack finery of her profession. Chamber music by Schubert and the bittersweet Gallic jingle of a piano waltz intensify the atmosphere.

The risks come off, thanks to the acting. Faith Brook, a ludicrously under-used actress, with her high cheek-bones, aristocratic nose and wide Grecian-mask mouth, beautifully captures the taut vulnerability and neurotic chic of the old actress remembering her departed. Alexandra Mathie's straightforward attack is sensitive without lapsing into fayness. Iona McLeish's design, an oval space lapped by a sea of polished reflecting metal, is lit by Geraint Pughe in response to the slightest change in mood. A large audience was the stillest, quietest and most attentive I can remember for years. For the benefit of the Arts Council, who appear to operate according to no logical criteria, this is a Good Thing.



Perspective view of the new central block of Bracken House from Cannon Street

Architecture/Colin Amery

New look for Bracken House

At a time when there is so much public attention in London on the plans for the surroundings of St Paul's Cathedral, it is a pleasure to preview a scheme that offers a new future for one of the major landmarks of the area – Bracken House, the home of this newspaper until 1989, designed in the mid-1950's by Sir Albert Richardson.

Bracken House was sold to the Obayashi Corporation, the Japanese development and construction group, by the owners of the Financial Times, Pearson plc in June 1987. In August 1987 the Secretary of State for the Environment announced the listing of Bracken House, and English Heritage recommended a Grade II* status. Only since April 1987 have all buildings in England over 30 years old been eligible for listing, and after considerable work by English Heritage and its advisors a list of the first 50 such buildings is sitting on the desk of the twentieth Earl of Caithness, recently-appointed junior Environment Minister, waiting for an official imprimatur.

There can be no doubt about the potently individual quality of Bracken House: it is very much a reflection of the character and talent of its architect. Its stone, bronze and brick elevations show a synthesis of modern and classical traditions that is appreciated today as both knowledgeable and unusual. How the tide of taste has turned! When the building was opened it was the target of a march and demonstration by the Anti-Ugly Society – a group of modernist architectural students who wanted to banish traditional architecture for the bright new future of modernism. They would find it difficult to isolate their targets today.

The source for Bracken House is generally considered to be the Palazzo Carignano in Turin, designed by that genius of the last stages of high Italian Baroque, Guarino Guarini (1624 –1683). Sir Albert wrote to his son-in-law and partner Eric Houfe that the plan of this palace had inspired his solution for the sloping site of Bracken House between St Paul's and the river. The palace plan shows an eliptically shaped block between two rectangular wings. Bracken House had to house a newspaper printing works, as well as loading bays, between the two north and south blocks, which are principally devoted to offices and staff facilities. Although the whole building is listed it is apparent that the centre block will be almost unusable once the newspaper has departed.

Before they sold the building Pearson invited a short list of five architects to prepare proposals for Bracken House: Arup Associates; Richard Rogers Partnership; Stirling Wilford Associates; Michael Hopkins and Partners; and John Outram Associates. It was decided that Michael Hopkins had produced the best scheme, and Obayashi were glad to retain him and add the services as consultant of Sir Philip Dowson, of Arup Associates. This scheme is now being submitted for planning consent and for public comment.

It has a good solution to a difficult problem. The removal of the printing works at the centre of what is an island site gives an opportunity to insert seven floors of offices between the two Richardson "bookends." These end blocks are remarkable for the quality of the craftsmanship that was lavished on detailing and materials. The bricks were manufactured in special sizes; the Hollington sandstone is an appropriate shade of pink, and the main entrance is dominated by Philip Bentham's astronomical clock with Churchill at its centre, like the sun. Richardson lavished attention on the way the building turns corners – the curved turrets on the Queen Victorian Street side are particularly fine. But no one would claim that the interiors of many of the offices are more than average in quality, and the changes in levels and inadequate lifts have, for a long time, made a crowded building difficult to use.

Michael Hopkins is famous for his brilliant use of the latest materials and an originality combined with an innate architectural feel – something which is rare. His stand at Lord's for the MCC is one of the best new things in London and I am very much looking forward to the work he and his wife are doing for the reorganisation of the Victoria and Albert Museum.

His sources of inspiration for the central block of Bracken House are both the plan of the Guarini Palace with its curved walls, and the organisation of the façades following the scale and care exercised by Richardson. Wisely Hopkins has not decided to go for that fatal treatment so often applied to ailing old buildings – façadism. Just retaining façades can rarely be justified. Here he has seen the front and rear blocks as whole buildings that will survive with some internal re-planning; the simple curved form of the new block sits beautifully between the older elements. The decision to make the new entrance to the building on Friday Street means a shorter distance to the central atrium which will bring some light to the deep plan of the new office floors. The heart of the building will be a large dealing room for the bank tenants at lower ground floor level.

The new façades echo the old in a highly satisfactory way using cast iron, stone and bronze. Inspired by early cast iron and glass façades, like the Arighi Bianchi building (1883) in Macclesfield and the earlier and more brilliant Oriel Chambers (1864) in Liverpool, Hopkins has designed a rythmic series of bays and stone piers that enhance the Richardson remains.

Hopkins works in an English tradition of engineering and architecture that seems to me to be timeless. The new plans for Bracken House are intelligent and promise to be beautiful, and although they are dealing with a listed building, they are no compromise. The only sadness is that the Financial Times will not be the occupier. However, Mr Hopkins is doing his best to order the interiors of the paper's new home across the river.

★

There is only another week to see the excellent Aldo Rossi exhibition at the RIBA, 66, Portland Place, London, W.1. that was reviewed when it opened earlier in York.

Phoenix Dance Company/The Place

Clement Crisp

It is some comment upon the changing attitudes and patterns in British life that Leeds should be recognised as a significant centre of dance. Thanks to the enlightened attitudes of its educational authorities, such schools as Harehills Middle and Intake High have blazed a path of dance teaching and creativity that has produced a generation of dancers of exceptional interest. The group of six young black male dancers who work as Phoenix Dance Company is the proudest result of this system: the company has, during the past six years, shown itself one of the most vivid and exhilarating modern troupes in Britain. And at The Place on Friday night, as part of that theatre's "Spring Loaded" season, the dance crackled with energy and was thrilling.

The troupe is, in the best sense, a co-operative: creation, performance, seem sprung directly and touchingly from their common experience. The introductory piece of the evening was *"Leave Him Be"* with the dancers piling boisterously on to the stage from the auditorium and involving us in the tensions (which here lead to heavy drinking) that are part of the pressure upon gifted performers. Villmore James's choreographic structure seems loose, but it controls the bold temperament and humours, as well as the implied frustrations, of Phoenix's work, and we feel we know the dancers as real people rather than as performers. The other works in the evening further illuminate the powerful dance personalities of the cast. A short piece about tramps was acute in observation, and danced with knockabout humour by Mr James, Edward Lynch and Gary Simpson.

"The Path", which ended the evening, drew strong and persuasive portraits of young black men alone or in clubs, and in the hectic world of pop concerts, and generated enough physical voltage to light a medium-sized city. Even a confusing study about the elements was redeemed at every moment by the excellence of the dancing of Junior Edwards, Douglas Thorpe and Gary Simpson. Mr Thorpe is, even by Phoenix's high standards, an artist of intense and individual gifts. Flyweight build, long line and high extensions, an exceptional lightness, mark everything he does: he can seem dapper, or airborne, or fluid as he cuts his way through the dance. Here is a rare and brilliant stylist.

But the entire Phoenix ensemble seems a corporate expression of sure and pertinent talent, and it merits a more extended London season. The combination of prowess and rhythmic panache, of social experience made theatrically alert and of well-constrasted movement personalities, with an obvious integrity of manner, make for something uniquely satisfying in the dance theatre. They deserve, prospective sponsors please note, every encouragement and success.

A Touch of the Poet/Comedy

Martin Hoyle

Michael Coveney welcomed this foray by Eugene O'Neill into Shavian historical swashbuckling (to be deliberately deflated, of course) when it appeared last month at the Young Vic. His reservations centred on David Thacker's direction in the round. Now promoted – if promotion it be – to the West End, the play is staidly presented in a conventional proscenium setting whose only oddity is that doors both stage left *and* right apparently lead to the same upstairs quarters. We see the exterior of the first floor overhanging the action in the tavern dining-room; and note the late-burning light in the sick-room of the wealthy young Yankee that the innkeeper's daughter is determined to marry.

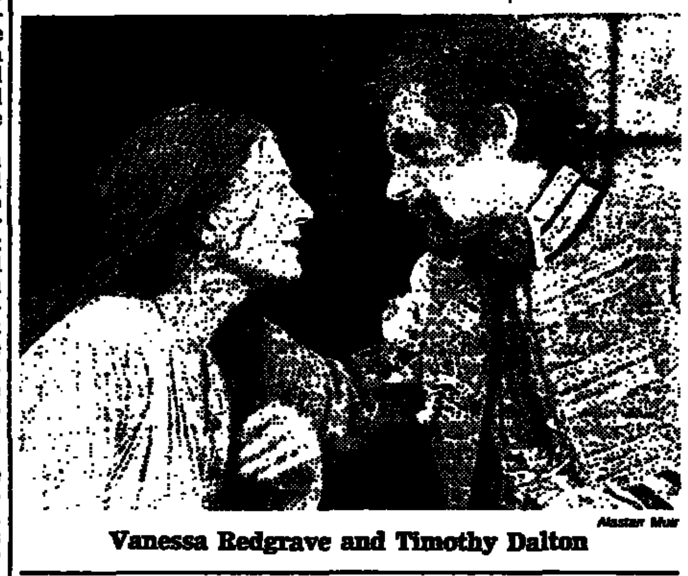
The innkeeper is grandiloquent Cornelius Melody, an ancestor of those debonair, self-absorbed fantasists epitomised by O'Neill in James Tyrone, the ageing matinée idol in *Long Day's Journey*. Torn between his Irishness and his pose as an officer and (English) gentleman, his voyage of painful self-discovery takes him from contemptuous disdain of his brogue-accented wife and daughter to a bloody and bruised accommodation with reality. In effect a protracted anecdote about pride getting its just desserts (the action unwinds between morning and after midnight, three and a half hours in our time), the play leaves one uncertain as to why the sense has never been beaten into this dashing loudmouth before; all it takes is a mortifying thrashing and out comes the truth about his false claims to be an officer under Wellington, his real love for his derided drudge of a wife and the true nature that the spalpeen has been hiding under a clipped Laurence Olivier accent all his life.

If the slightly arbitrary plotting, emphasised by an awful lot of third-person narration to fill in the story, emerges as the work's main weakness, the psychological twist whereby the hitherto loathing daughter suddenly wants his fraudulent persona back again, horrified by the born-again Paddy that her father has become, is a stroke of brilliantly ironic perceptiveness.

Apart from a crony who cannot manage a convincing Irish accent, the acting carries the day. Timothy Dalton's Melody is fatuously upper-crust in company, frighteningly venomous when spitting out hatred for his "thick-wristed peasant" daughter (and believably repentant a few seconds later), and superbly conveys the streak of bitterness underlying his final conversion into an unaffected broth of a boy. This is a remarkable performance, notwithstanding the smudged streaks of brown make-up furrows with which Mr Dalton attempts to age.

Vanessa Redgrave is Melody's downtrodden wife. Muted and touching, she is here mercifully free of those loopily self-conscious mannerisms that stampede the more excitable sections of the popular press into showering her with annual awards. Only that glazed-eyed look of earnest gormlessness which she now adopts at every first entrance remains. But this can be forgiven for the love and warmth which irradiate the character.

The female lead is in fact given to the daughter. Rudi Davies confirms the excellent impression she made in *A Lie of the Mind* at the Royal Court. As yet she needs slightly more variation of colour in the character's range of emotions; the high points of hurt or desire lack the intensity to stand out from the resentments and anxieties that make up the girl's normal personality. But the intelligence, control and technique are all there.



Vanessa Redgrave and Timothy Dalton

St John Passion/St John's

Richard Fairman

Times have changed since the days (not so long ago) when the Choir of King's College, Cambridge, used to perform their Bach with Benjamin Britten and traditional orchestras. In a manner that is wholly appropriate, given their academic home, they show a keen eye for the latest scholastic theories and their account of the *St John Passion* on Thursday was right up-to-date in performance style.

For the choir itself the boom in "authentic" performances has not been entirely good news. There are now a number of small, professional choirs who have taken over the work that King's used to have to itself, and they do it with such astonishing virtuosity that no choir made up of trebles and relatively inexperienced student voices has much hope of touching them.

Nevertheless, there was nothing in this appearance at St John's, Smith Square, to suggest that their standards have dropped and it is quite possible to argue that the kind of singing they offer, both in the composition of the choir and its style, is closer to what Bach himself would have expected. The playing of the untitled Baroque Orchestra, which seemed to include most of the well-known period instrument players in London, was certainly all gain.

This is a new generation of performers and they allow no echoes to linger from the late 60s. That style, with its emphasis on expressive shaping, is long gone. The chorales were all straightforward; the tempi were brisk. The conductor, Stephen Cleobury, made no conscious attempt to impose himself upon the music, though the drawback with that comes when the music seems to mean less: a little more intervention might, at least, have made the rhythms less stolid.

A couple of his soloists – the tenor Andrew Murgatroyd and bass Michael Pearce – sounded as if they wanted more space to breathe; but the new soprano and countertenor, Gillian Fisher and Charles Brett, provided well-shaped solo singing. Mark Tucker was the young Evangelist, decisive and unsentimental in the current style, and Gerald Finley a most impressive, resonant Christus. There is another performance in King's College Chapel on Easter Saturday.

Saleroom/Antony Thorncroft

Botanical debut

The auction houses are on such a treadmill of accepting, cataloguing, promoting and selling works of art that they rarely have the time or inclination to re-think their procedures. This month Christie's is making some modest, oh so modest, changes to its routine, and introducing three categories of sale this month.

Last week decorative textiles, aimed directly at the interior-market, was born; in New York commercial real estate is a heavyweight entrant on March 24; while on Wednesday botanical watercolours makes a popular entry. This is an unusual auction in offering items produced by both professional artists and the talented amateur, with prices ranging from a few pounds to £5,000. Most date from the 18th and 19th century.

Some names are already established, such as Edwin Dalton Smith of Chelsea, and prices exceeding £1,000 are expected for his studies of various camellias; others are gifted amateurs, like Viscountess Canning, wife of the 1st Viceroy to India, whose group of plant studies sketched there could make £5,000 plus. This sale has aroused considerable interest and many prices will top their estimates.

Also at Christie's on Wednesday is a musical instrument auction which includes some very early items, in particular a rare columnar alto recorder of around 1535, made by Hans Ranch von Schratt, one of the first makers to leave his name on his work. It should sell for up to £35,000. A chitarrone, a lute shaped instrument, made in 1725 in Rome by David Teechler, with the neck faced in tortoiseshell, should approach £18,000. As Christie's rightly says, such an instrument rarely appears on the market.

Sotheby's auction of ceramics tomorrow includes two good private collections, one of Worcester porcelain, the other of Rockingham. The Worcester items date from the Regency when the factory was producing painted and gilt neo-classical wares, now very popular in the US. The Rockingham ware is all genuine. Until recently almost any piece of brightly coloured mid 19th century floral porcelain was attributed to Rockingham. The animal figures, with estimates from £300 to £800, are certain to attract keen bidding.

Arts guide

March 11-17

Music

PARIS

Francisco Araiza recital, Irwin Gage piano (Mon). Théâtre de l'Athénée (47 42 67 27)

I Solisti Veneti conducted by Claudio Scimone: Vivaldi, Hummel, Mozart (Mon). TMP-Chatelet (42 33 44 44)

Ensemble Orchestral conducted by Armin Jordan, vocal ensemble Piquemal, Ile de France Vittoria choir conducted by Michel Piquemal: Jean-Louis Florentz, Gabriel Fauré (Tue). Salle Pleyel (45 63 88 73)

Haydn's Requiem, Bach's Concerto for violin and oboe at Saint-Roch Church (42 61 93 39)

Pierre Reach, Piano: Bach (Tue, Thur). Salle Gaveau (45 63 20 30)

Radio France Choir, brass ensemble of the Nouvel Orchestre Philharmonique conducted by M. Tranchant: Mendelssohn, Brahms, Bruckner (Thur). Saint-Germain-des-Pres (42 20 15 18)

Wanderer Trio: Schubert, Brahms (Wed). Salle Gaveau (45 63 20 30)

Smetana Quartet: Beethoven, Janacek, Smetana (Thur). Paris Opera (47 42 53 71)

ITALY

Milan: Teatro alla Scala: Gidon Kremer and friends playing Lockenhaus (80 91 26).(Mon).

Florence: Teatro Comunale: Colin Davis conducting the Orchester des Bayerischen Rundfunks, Tchaikovsky, Hindemith, Cleveland Quartet, Beethoven (Tue and Thur). (27 79 236)

Rome: Auditorium in via della Conciliazione: Vladimir Spivakov conducting Haydn and Tchaikovsky (Mon and Tue). Orchester des Bayerischen Rundfunks conducted by Colin Davis. Tchaikovsky, Hindemith and Brahms (Thur). (65 41 044)

Rome: Auditorio del Gonfalone (via del Gonfalone 32/A): The Marco, Louis and Christophe Pantillon trio playing Haydn, Mozart and Mendelssohn. (Thur).(68 75 952).

NETHERLANDS

Amsterdam, Concertgebouw. The Netherlands Philharmonic conducted by Hartmut Haenchen, with Sabine Meyer, clarinet: Bach, Mozart, Ligeti, Shostakovich (Tue). Edo de Waart conducting the Concertgebouw Orchestra, with Isabelle van Keulen: Ketting, Prokofiev, Strauss (Wed, Thur). Recital Hall: Rachel van Morsel, mezzo, accompanied by David Selig: Tchaikovsky, Schubert, Thomas, Wolf, Mahler, Gershwin, Britten (Wed). The Tokyo Quartet: Beethoven, Yoshida, Schubert (Thur). (71 83 45).

Utrecht: Vredenburg. Edo de Waart conducting the Radio Philharmonic and vocalists in a concert performance of Wagner's Das Rheingold (Mon). Luciano Berio conducting the Rotterdam Philharmonic, with Robert Holl, bass, and Sief Douwes, clarinet: Berio's treatments of Boccherini, Mahler, Brahms (Tue). Recital Hall: Gisela May sings Brecht (Mon). Electronic concert (Tue). Flamenco evening with Gabriel Moreno, vocals and Carlos Pardo guitar (Thur). (31 45 44).

The Hague: Philipszaal. The Hague Philharmonic under Hans Vonk, with Elisabeth Leonskaja, piano: Strauss, Weber, Brahms (Tue, Thur). (60 98 10).

Utrecht: Geertekerk. The Netherlands Chamber Choir conducted by Jan Boeke, with Bernard Winsemius, organ: Sweelinck, Scheidt, Siefert, Scheidemann (Wed). (030 340 921).

NEW YORK

New York Philharmonic. Robert Johnson director. Mendelssohn, Loeffler, Mozart, Brahms (Mon). Merkin Hall (36 28 719).

Maurizio Pollini piano recital. All-Beethoven programme (Mon). Carnegie Hall (24 77 800)

New York Woodwind Quintet. Seiber, Schoenberg, Brahms (Tues). Merkin Hall (36 28 719).

Swedish Radio Symphony. Esa-Pekka Salonen conductor, Cho-Liang Lin violin. Blomdahl, Nielsen, Sibelius (Wed). Carnegie Hall (24 77 800)

Philharmonia Orchestra. Giuseppe Sinopoli conductor. All-Bruckner programme (Thur). Carnegie Hall (24 77 800)

Kyung-Wha Chung piano recital. Bartok, Beethoven, Scriabin, Chopin (Tue). Kaufmann Hall (36 51 100)

Leonard Raver organ recital. Marchand, Bach, Gardner Read, Liszt, Ives, Persichetti, David Diamond (Tue). Alice Tully Hall (36 21 911).

New York Philharmonic. Klaus Tennstedt conducting. Radu Lupu piano. All-Beethoven programme (Thur). Avery Fisher Hall (87 42 424)

James Tose violin and piano recital. Bach, Brahms, Ravel, Samuel Gardner (Wed), 12.30. Free) Juilliard Concerts at the IBM Garden Plaza. 56th & Madison.

Philharmonia Virtuosi. Richard Kapp conducting. Michala Petri recorder, Paul Peabody violin. Bach, Zelenka, Heberle, Telemann, Fasch (Tue). Town Hall (84 21 818).

TOKYO

Yomiuri Nippon Symphony Orchestra, conductor Heinz Rogner. Mozart (Mon); Beethoven (Thur). Suntory Hall (270 8181)

Gerhart Hetzel (violin) with the Tokyo Metropolitan Symphony Orchestra, conducted by Akeo Watanabe. Mozart, Brahms, Stravinsky. Tokyo Bunka Kaikan. (Wed). (822 0727)

Mischa Maisky (cello) with NHK Symphony Orchestra. Programme includes Dvorak Cello Concerto. (Wed, Thur). NHK Hall, Shibuya (465 1781)

Chamber Orchestra of Europe conducted by Claudio Abbado. Mozart, Haydn, Mendelssohn. Suntory Hall. (Thur) (505 1010)

FINANCIAL TIMES

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Monday March 14 1988

Mr Shamir in Washington

MR YITZHAK Shamir, the Israeli Prime Minister, is known to be a very hard man. Before and during Israel's War of Independence he was the leader of the Stern Gang. Later he had a distinguished career in Israel's secret service, before entering politics as a member of the Herut Party led by Mr Menahem Begin – a party committed in principle to establishing the Jewish state on *both* banks of the Jordan. In 1978 he voted against the Camp David Accords, and though he now accepts them he remains firmly opposed to any process that might lead to Israel's renouncing control or sovereignty over even an inch of the Gaza Strip or the West Bank.

Political asset

It is a reputation that does not bother him at all. On the contrary, all the signs are that he regards it as his strongest political asset. It was entirely characteristic of him that last Friday, two days before flying to Washington, he should have publicly and scathingly rejected Mr George Shultz's proposals for a Middle East peace settlement. "These proposals harbour grave dangers for the future of Israel," he said. "It obligates me to resist them with all my power. And my power to resist is very great."

Earlier in the week he had been equally firm in rebutting criticisms from 30 US senators who had expressed dismay at his rejection of the "territory for peace" principle as the basis of any Arab-Israeli agreement.

On the face of it such an attitude is crazy to the point of being suicidal. Seldom can any nominally sovereign state have been so dependent on the support of a foreign power as Israel now is on the United States:

● At a time when Americans are desperately seeking to reduce their budget deficit they are still subsidising Israel, through their budget, to the tune of $1,400 per annum for each individual Israeli (that is not counting the private contributions which are exempt from US taxation).

● Israel is still officially at war with all her neighbours except Egypt, and even Egypt remains at peace with her partly because it too is rewarded with massive quantities of US aid.

● Israel's armaments industry is kept going largely by the uniquely privileged access it enjoys to the US defence market, as well as its sales with US encouragement or connivance to other states, ranging from South Africa to Guatemala, which the US itself for political reasons is unwilling or unable to supply.

● Even its ordinary civilian economy benefits from a free trade agreement with the US which is all the more valuable at a time when the European Parliament has just blocked three trade accords between Israel and the EC in protest against Israel's policies in the occupied territories.

● Those policies have incurred worldwide criticism and have had much unfavourable publicity within the US. If ever there was a time when Israel needed to show some deference towards American views, one would think it would be now.

Such indeed is the argument of the Israeli Labour Party, headed by the Foreign Minister, Mr Shimon Peres. But Mr Shamir is a faithful pupil of his predecessor Mr Begin, who ironically on this point took over the philosophy of his old enemy and Mr Peres' old mentor, the late David Ben Gurion: "It doesn't matter what the goyim say. It matters only what the Jews do."

Memorable exception

Up to now Israel has always been able to ignore American advice and criticism with impunity, because the critics and advisers have never been willing to make continued American support for Israel conditional on Israel's heeding their advice. The single memorable exception was President Eisenhower, who in 1956-7 successfully insisted that Israel withdraw from Sinai and the Gaza Strip after the Suez operation. But, with Mr Shultz reportedly urging members of Congress *not* to pressure Israel publicly to accept his peace plan, while bowing to Congress's determination to close the New York office of the Palestine Liberation Organisation even at the price of provoking a crisis between the US and the entire United Nations, Mr Shamir has little reason to fear that President Reagan might be about to take a leaf out of his distinguished Republican predecessor's books.

Time for TV to compete

THE ITV contractors, who have enjoyed a monopoly of over-the-air advertising in the UK, are emitting loud cries of pain because the Government is contemplating a competitive tender for the next franchise round to be awarded at the end of 1992.

The ITV monopoly will in any case be eroded over the remainder of the century. The Astra medium-powered Luxembourg satellite and the high-powered British Satellite Broadcasting consortium will soon both be beaming programmes to UK viewers. Cable is continuing its slow spread. But most important of all there is the chance – if the Government grasps the nettle – of three or more extra over-the-air channels, which will be the cheapest way to provide extra choice for most British viewers. It will also be the best way to introduce pay-television, which expresses viewer demand far more directly than advertising-financed or tax-financed channels. It would be outrageous if the government deliberately went slowly on the new terrestrial channels to help existing channels or protect favoured developments such as Direct Broadcasting by Satellite.

Scarcity value

Mainstream franchise holders will of course start off holding a predominant market share. The profitability of ITV companies will depend on their success in their long overdue effort to cut costs. According to a report made by NERA, the economic consultants, for the ITV Association, the net present value of the next franchise awards will be in the £1bn to £2bn bracket, assuming they run for eight years.

An official franchise is thus still likely to have scarcity value; and by far the best way to allocate scarce national resources is by competitive tender. It is also the best possible incentive to efficiency and cost control. Bids should not be lump sum offers, but be expressed as a proportion of net advertising revenue.

There is a far more important issue at stake, that of due process. The present system under which the Independent Broadcasting Authority awards or withdraws franchises behind closed doors at its own discretion is an affront to the rule of law – both when existing franchises are renewed and when they are inexplicably withdrawn.

The ITV contractors have two arguments against competitive tenders. One is the fear that they will not survive the tendering process. To which the reply is: "Tough luck. You have had a pretty good run for your money."

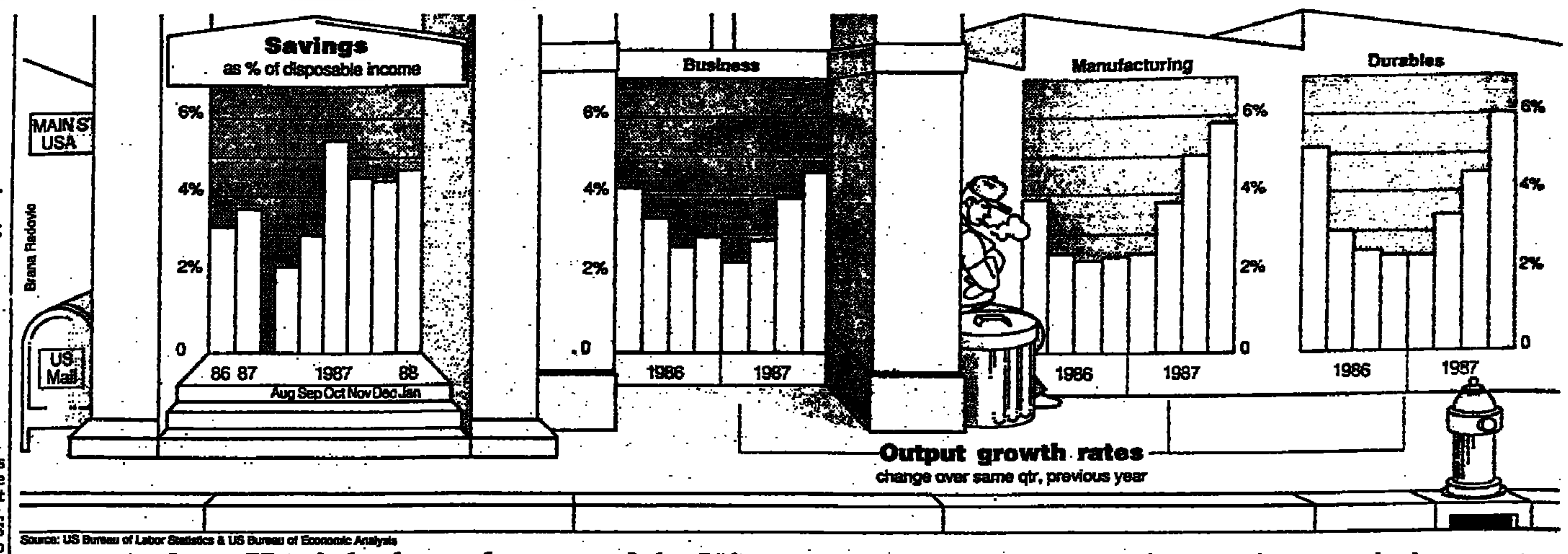
Possible safeguards

The other argument is that programme standards will suffer in the drive to cut costs. Here it is time to remind broadcasters that their role is to serve the public rather than to provide programmes which appeal to programme makers and for which they offer each other awards. If Parliament wishes for cultural or other reasons to finance non-commercial programmes, it should finance them via an Arts Council of the Air. The Government does not regulate all theatres on monopolistic lines to make sure Shakespeare is played.

There are in any case numerous possible safeguards. The IBA can write in requirements, for instance, in relation to current affairs, drama, specialist or minority programmes, which any bidder would have to satisfy. Financial sanctions such as performance bonds can help. They would certainly be better than the present IBA vetting of schedules and programmes, which is censorship in velvet gloves.

As important as ITV franchises is the future of Channel Four, created to provide alternative types of programmes. It is currently funded by subscriptions paid by ITV contractors, who in turn sell the Channel's air time. The Channel can already almost finance itself on existing resources. And it could surely collect more revenue if it sold its own advertising. The Channel should become an independent non-profit making trust.

If the Government tried to slow down the entry of newspapers, magazines, or books, in the name of regulating competition, most people would see the threat to freedom. Yet broadcasting is today's predominant form of publishing – the same principles should apply.



Source: US Bureau of Labor Statistics & US Bureau of Economic Analysis

Anthony Harris looks at the state of the US economy and finds reason for cautious optimism

Robust, but needs careful watching

AN HONEST survey of the US economy at this moment should begin with a bang and a whimper combined. The evidence suggests that the economy is strong, and indeed that the Administration forecast of 2.4 per cent growth, greeted as too optimistic, could easily prove cautious. It also suggests that consumption is restrained and that the trade balance could, therefore, improve beyond recent expectation. These are terribly tentative conclusions, though, as Mr Alan Greenspan, chairman of the Federal Reserve, said in one of his marathon appearances in Congress recently, "there has seldom been a time when the outlook for the US economy was so uncertain."

Virtually every American forecaster would agree, yet it is also true that the forecasts for the American economy have seldom been so unanimous. On growth, for example, a huge majority is to be found clustered in a narrow bracket of 2-2½ per cent for 1988; the innocent reader of forecasts might conclude that the outlook is, after all, rather certain.

A slightly longer study, however, would give a different impression. The consensus, although narrow, is not stable. The growth projection was until recently clustered round 1.8 per cent, and the recession, which more than three quarters of business forecasters expected during 1988 as recently as last December, has faded into an increasingly indefinite future. The forecasters are indeed uncertain (a further upward revision now seems to be spreading), and meanwhile tend to cling together for comfort. They forecast not so much the economy as the consensus.

There are respectable reasons for this confusion. First, the US economy is undergoing a wrenching structural change. While exports are rising in real terms at double-digit annual rates, and manufacturing, especially in aircraft and electronics, is expanding almost as fast as capacity and component supplies can respond to demand, some industries and regions remain in deep depression. There is also widespread unease (in spite of a record growth of unfilled orders) about how long a rather flat economy in the outside world can sustain the export-led recovery of the growth sectors.

At the same time, there is an important structural change going on within the US corporate sector. In the decade before the over-valuation crisis of 1984-5, small companies were displacing large ones as the main engines of growth and employment, taking up some 1.4m employees shed by the larger companies (those with more than 250 employees). The industrial census due to be taken this year will almost certainly show that this trend has accelerated sharply, as a result of management buy-outs and executive dismissals. It was reported this week, for example, that nearly a fifth of all redundant executives now start their own companies, against about one in 20 five years ago. Since the smallest companies file few statistics, their contribution to growth is difficult to monitor.

These structural changes help to explain one of the most difficult problems facing the forecaster: the inaccuracy of official statistics, and especially of the first, provisional figures which make the headlines. These estimates depend heavily on sample surveys and it is very difficult to construct a representative sample of such a mobile population. It is all the more difficult when the federal statistical bureaux have suffered heavily from President Reagan's drive for administrative economies – their British opposite numbers know what they are going through.

One or two examples will show what difficulties these problems create for forecasters. In January, a report was published showing an enormous rise in business inventories, which led to the general expectation that 1988 would open very weakly as unsold stocks were dispersed. The first revision wiped out a good deal of the accumulation, and attributed much of it to imports. More recently, there was a report that January saw a drop of nearly 3 per cent in orders for durable goods, concentrated in defence, aircraft and cars. Just over two weeks ago, nearly half this drop was revised away.

In one respect, it is true, forecasting is rather easy in the US in 1988. Most economic projections carry a rubric: "assuming unchanged government policies." In the US that statement is not a working convention, but a statement of fact; economic policy-making is virtually set in stone by the budget compromise agreed at the end of last year between the President and a hostile Congress. Here at least there will be no surprises.

The behaviour of the private sector, on the other hand, is quite abnormally difficult to project. There has been a sharp reported rise in the personal savings rate since the stock market crash of last October; the question of whether this is likely to last will start a hot debate wherever two forecasters meet. The latest evidence is contradictory: the car market has recovered sharply, but the big chain stores report disappointingly flat sales.

The business sector is also enigmatic. Interviews and spot surveys suggest that US corporations are reluctant to invest to meet rising demand. This is hard to reconcile with the very sharp rise in reported orders for industrial equipment – breathtaking was the word one Wall Street analyst used of the latest figure. The fact that capital equipment is the one remaining area of strong real import growth also argues for expansion: it is not a matter of falling US competitiveness, because capital goods exports are growing even faster.

> **The strength of the manufacturing revival is the most robust fact in a sea of uncertainty. The figures show it and experience suggests they must be right**

The strength of the manufacturing revival is certainly the most robust fact in this sea of uncertainty. Not only do the figures show it, but ordinary economic experience suggests that they must be right. The devaluation of the dollar against the most sophisticated of America's competitors has been massive and this is an extremely reliable economic stimulus.

What is more, the competitive advantage so gained looks more durable than usual. Nominal wage increases have actually slowed down during the recovery, so that, by the end of 1987, unit labour costs were 3 per cent lower than a year earlier, and nearly 5 per cent lower than at the end of 1985. This behaviour contradicts all the respectable models of the labour market – another of the structural changes which are baffling the professionals.

Incidentally, this prolongs the standstill in US real wages, which have now been virtually constant for a full decade – this must go a long way to explain why employment in the US has grown so much faster than in other developed countries. It may also explain why so many citizens of this highly successful industrial economy believe that it needs protection. The workers on the factory floor (and their numbers may still be falling) have no personal experience of economic success.

American prosperity cannot be built solely on manufacturing growth, though. Although manufacturing output has now regained its national income share of 10 years ago, before it became fashionable to talk of de-industrialisation, it is still little more than a fifth of total gross national product. If domestic demand is weak enough, as it already is in the contruction industry, a manufacturing boom would be perfectly compatible with a national recession.

That is one reason why forecasts of consumer saving behaviour generate so much heat. Another reason hinges on the balance-of-payments. Every Congressman who has sat through the recent lectures from the Administration and the Fed now knows two facts. One is that the US current balance reflects the balance between saving and investment demand in the economy as a whole. The other is that the recovery so far has been financed by a vast sum of foreign capital, which is all potential flight capital.

Everything, then, hinges on the future growth of private demand. If it slows down too much, a recession would be unavoidable. The fact that a recession would produce a sharp improvement in the current account might drive the dollar up, and make matters worse. If, on the other hand, private demand does not slow down enough to sustain a steady improvement in the trade balance, there could be a really troublesome dollar crisis.

The figures for personal income and expenditure over the last four months suggest that after a violent shock immediately after the stock market crash, personal savings have settled to a level perhaps 1 per cent higher than in recent years. This would reduce consumer demand by about $20bn annually, partly to the benefit of the trade balance. However, since there would be a partly offsetting drop in corporate income (notably, at the moment, in retail profits) the benefit to the national savings/investment balance might be much smaller.

It would be very rash to project even this modestly helpful trend on the basis of four months' highly provisional figures; the savings figure is a residual – the difference between two imprecise measures – so it is especially unreliable. However, as with the manufacturing revival, there are some quite good theoretical reasons for hoping that the trend is a real one.

One reason is the abnormally high burden of servicing existing consumer debt, which is constantly reaching new records as a proportion of income. This change of trend has been forecast repeatedly in recent years, however, without actually happening; it may be that the growth of employment, with a rising number of earners in each household, makes debt much easier to carry. The latest consumer confidence surveys, which show a revival almost to pre-crash levels, are also a warning against expecting consumer restraint.

However, there are two rather more reliable forces for restraint: pension fund arithmetic and demography. Many employers are having to resume contributions to their own pension funds as a direct result of the stock market crash. At the same time the normal life-time pattern of saving suggests an increase as the baby-boomers become middle-aged. The national Social Security fund is now swinging into rapidly rising surplus, from $10bn last year to $170bn 17 years from now; private provision against retirement will probably follow the same broad pattern.

The tentative conclusion stands: growth looks quite robust, if the outside world can avoid an actual recession, and the trade balance should improve at a slow but satisfactory rate. All these expectations, though, could be falsified by a capacity crunch, rising consumer spending, by revised figures or – perhaps the biggest risk – a dollar panic set off by one bad month or one rogue statistical report.

OBSERVER

Bring back the hat

■One of the tasks entrusted to me in Hungary last week was to buy a hunting hat for a friend. There is apparently an excellent shop close to the British Embassy in Budapest, though I failed to find it.

Yet the legend is true: there are a lot of hats in Hungary, some of them pretty good and very cheap. And if the Austrian hats, which are also widely available, are even better and not that much more expensive, that is a story about modern Hungary rather than a tale about hats.

It is also true that hats nowadays seem to be made either for pin heads or big heads, so that the person of average size is not well provided for.

Still, the episode led to home thoughts from abroad. Why is there no equivalent in the hat market to such successful ventures as the Sock Shop or the Tie Rack?

Socks and ties appeal, one imagines, to people's vanity as well as meeting their conventional needs. Even otherwise rational men can be sometimes seen sporting socks of bright red or yellow. As for ties, look around you: some people have the most extraordinary taste and an insatiable appetite for more.

The strength of the Sock Shop and the Tie Rack is that they make their wares easily available to people in a hurry. They are also a useful source of presents.

Yet if there is an element of vanity in such minor apparel, how much more there could be in hats, should they take off again!

The headquarters of the British hat industry are still in Luton, a town whose football team is currently specialising in finding every available route to Wembley. The hat statistics, however, are pretty dismal. The Department of Employment does not even publish figures for the number of people who work in the trade.

British hat production peaked at around 63m in 1985 – roughly about one per head of the population. It was up from 40m in 1981 when the present statistical series started being compiled; the figure for the first three quarters of 1987 was 45m.

But if self-confidence really has returned to the British, people should be wearing it on top. It seems to me that there is a large market niche for someone with a flair for design, a talent for marketing and easy access to the Business Expansion Scheme. Along side the Tie Rack and the Sock Shop, the Hat Stand could then take its rightful place.

East-east gap

■Another thought that arose in Hungary is how under-studied is the subject of east-east relations. People talk about east-west or north-south relations all the time. The more sophisticated among them have moved on to the south-south dialogue and a west-west agenda is in the process of being set up to encourage yet more communications between intellectuals across the Atlantic.

Yet the east-east dialogue scarcely exists, at least on anything like terms of equality. The smaller east European states tend to deal or to be dealt with by the Soviet Union directly rather than with each other.

In that, they they are quite different from western Europe where if Britain, France and West Germany ever get their act together, they can have some impact on the United States. The east European countries appear not to like each other very much. East Germany has no friends whatsoever and even the once promising Hungary is now facing an economic crisis. None of them have much idea how to adapt to Gorbachev and glasnost; nor does the Soviet leader seem at all clear what to do about them. That is an area to watch.

Swedish model

■There was a couple of high-powered Russians in Budapest, rather like Laurel and Hardy, a thin one and a fat one, so that one could never quite remember which one said what. Both journalists, they were well-educated, well-travelled and well-heeled and spoke fluent American. Indeed, they were almost a replica of Gennady Gerasimov, Gorbachev's most articulate spokesman on foreign affairs.

What was interesting was that they said that the model for the new Soviet Union was not the US, but Sweden. Apparently members of the Soviet elite now go on what amounts to a pilgrimage to Stockholm to pay tribute on the street where Olof Palme, the late Prime Minister, was assassinated.

Lawson's hero

■One story missing from the many profiles of Chancellor Nigel Lawson that have appeared over the last few days concerns the Oxford don who approached him to see if he would be willing to work for British intelligence.

Ever open-minded, Lawson agreed to go along for the interview. It went quite well at the start until he was to state the living Englishman whom he most admired.

Lawson thought for a second, then said Bertrand Russell. He meant the Russell who, years before, had written Principia Mathematica, not the man who in his old age was running the campaign for nuclear disarmament. But, according to Lawson, that was the end of any idea of his being offered a job.

Big day tomorrow

■Still on the subject of the Chancellor, it seems to me quite wrong to assume that he has completely lost his battle with the Prime Minister over the exchange rate. Lawson never said that the £ should never go above Dm3, and in any case the difference between just under and just over is marginal. He also never said that the target range should never be changed.

The lesson one draws from the whole unseemly affair is that spokespersons from No 10 Downing Street should not be trusted to make statements about economic policy. They have landed us in a mess before. The Chancellor should be quite capable of getting back on track, probably with his standing enhanced, though we shall see tomorrow.

Bashful Gore

■When the American primaries began, the seven starters on the Democratic side were dubbed the "seven dwarves". So the National Enquirer, the gossip magazine which sells 4.5m copies a week, conducted a survey: "Can you name more of Walt Disney's Seven Dwarves or more of the seven Democratic candidates in the presidential race?"

The results show that 57 per cent of those polled knew more of Snow White's dwarves, 24 per cent knew more of the candidates and 19 per cent knew an equal number.

One woman told the Enquirer: "I guess I remember more dwarves than candidates because the dwarves were cute and the candidates aren't".

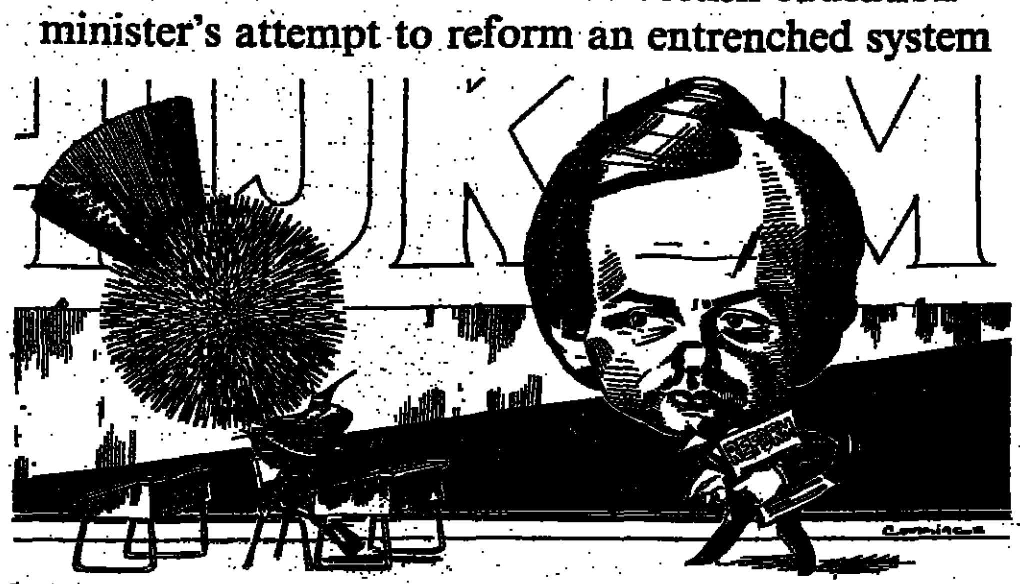
The best known of Snow White's lot was Dopey, while the best known (and cutest?) candidate was Gary Hart. The least known little person was Bashful. And the least known Democratic hopeful was Albert Gore – the youthful Senator from Tennessee who has emerged as one of the three front runners since Super Tuesday.

On the boards

■Hamlet, said an old lady who saw it for the first time, is a very good play, but too full of quotations. Or, as a famous critic once wrote: "So-and-so played the King as if he were expecting someone else to play the ace."

James Buxton examines the Scottish education minister's attempt to reform an entrenched system

Mr Forsyth tackles a prickly problem



"I SIMPLY don't know where you get the idea from that everything is fine in the Scottish education system," says Michael Forsyth, the Scottish Education Minister. "A lot of teachers don't. And plenty of parents I talk to are dissatisfied."

Michael Forsyth, who is 33, is probably the most devoted apostle of Thatcherism in Scotland. He is attempting to introduce reforms of the Scottish education system that in part mirror those planned for England and Wales by Mr Kenneth Baker, the Education Secretary. As an eager exponent of a philosophy which many Scots insist is alien to their traditions, he has become a hate figure in Scotland, rarely talked about in moderate language.

"The whole thrust of what I am trying to do is to create an opportunity to respond to the interests of the consumers – ie, the parents," he says. He wants parents to become involved in the running of schools and to introduce external testing into primary schools.

This means challenging an education establishment that draws its strengths from a very long tradition. Scots are proud of their education system, recalling that it was the 16th century religious reformer John Knox who first ordained that there should be a school in every village. Scotland made primary education compulsory in 1872, eight years before England, and was 20 years ahead of England in raising the school leaving age to 14 in 1901.

The Scottish education system is neat and manageable, as befits a small country. The private sector takes less than five per cent of all children. All secondary schools without exception are comprehensive. Research has shown that standards have if anything been raised, particularly for the less able children, by the shift to a comprehensive system. There is in effect a core curriculum in the secondary sector because there is only one examination board in Scotland.

Over the past two decades the primary schools have moved away from rote learning towards the – sometimes controversial – child centred approach to teaching. This stresses the arousing of childrens' interest and giving them the skills with which to acquire knowledge rather than cramming them with facts. But Scottish schools retain their emphasis on teaching the basic skills.

There was no equivalent in Scotland of the anguished debate on educational standards which began south of the border in the mid-1970s. The Scots moved earlier than England to remedy a defect of the secondary schools that the education was geared too much towards the abler children. The Scottish Office decided in the early 1980s to replace Scotland's mid-teens "O" grade examinations with the broader Standard Grade – the Scottish equivalent of the GCSE in England.

But because of the teachers' pay dispute, which went on for two years and ended last year, the Standard Grade is only now beginning to be introduced, just as it comes into effect in England.

It is difficult to compare the Scottish state system objectively with its English equivalent. Studies have shown that Scottish primary children are better at reading than their English counterparts, though perhaps slightly less good at mathematics.

On a subjective basis, it can be said that Scottish schoolchildren are far less used to questioning their teachers than English children. But if that is a defect, a Scottish workman doing a job on your house in Edinburgh is far more likely to be able to give a clear oral explanation of what he is doing – or leave a completely literate note about it – than his equivalent in London.

As an important consumer of the system, the Confederation of British Industry in Scotland complains that youngsters who leave school without going on to further education often have to be given remedial training by their employers. "Many of them leave school without much aptitude for the world of work," says Mr Ken Smith, the assistant director. "But if a child survives through to further education, employers are usually reasonably satisfied."

Mr Forsyth acknowledges that the Scottish system faces less drastic problems than the English one. But he points out that the favourable picture of the system is usually painted by "the input side" of education. The "output side" – the parents – sees things rather differently, he says. "They want to know what's going on in their children's schools and they want their children to be stretched more," he says.

Only two months after becoming Education Minister, Mr Forsyth startled Scotland by putting forward what he admitted were radical proposals for parent power in schools. Unlike English schools, Scottish schools have no governors and only rudimentary procedures for representing parents. He proposed the setting up of school boards in schools with more than 100 pupils on which parents would form a majority: they would be able to veto the appointment of the head teacher, have authority over spending on books and materials and have the right to raise questions about any matter.

Furthermore the boards could eventually, if they wished, seek power from the Secretary of State for Scotland to control the entire school budget and to appoint all staff. The Scottish Secretary would be empowered to ignore the local education authority's objections.

Mr Forsyth's proposals triggered an enormous campaign of opposition, led by the Educational Institute of Scotland (EIS), the principal teacher's union, and by the predominantly Labour-controlled local authorities. But in the consultation process – more than 5,000 people wrote to the Scottish Office – many ordinary Scots also stated their objections to the scheme. The powers being offered were much more sweeping than they wanted and there were fears that school boards could fall into the hands of over-eager minorities, including religious denominations.

The Government had to climb down on several elements of the proposal. The plan for a parent veto on the appointment of the head teacher was amended to parent approval of a short-list of candidates. But the consultation did reveal that most people thought that parents should have more say in what was going on in their childrens' schools. The EIS was stirred to put forward its own proposals for limited parent power.

Both Mr Forsyth and the EIS now say that a broad consensus has been reached, though the teaching unions are still worried about some aspects of the remaining proposals (soon to be encapsulated in a parliamentary bill). Though there is no question at this stage of Scottish schools being able to opt out from their local education authorities' control, Mr Forsyth says he does not rule this out as a possibility for the future, once the boards are established.

The other main thrust of Mr Forsyth's policy is barely less controversial, at least with the educational establishment. He is proposing to introduce a modified version of the testing Mr Baker wants to see, with tests for primary schoolchildren at the ages of eight and 12 in English and mathematics. Since the demise in the 1960s of the 12-plus exam in Scotland, primary school children have not been subject to external testing.

Mr Forsyth says that parents want testing. He bases this view partly on those of his own constituents in Stirling and on other anecdotal evidence. There has been no comprehensive survey of parents' views.

One follower of the Scottish educational establishment acknowledges that these may well be the parents' views, but argues: "Parents are very conservative and want their children to be taught the same way they were taught. They don't realise that education has changed." The consultation on this issue is still going on.

A few weeks ago the Government scored a clear victory for parents over much of the educational establishment and the Labour party on a more practical issue. Strathclyde Regional Council had decided to include in a long list of schools destined for closure (because of steeply falling rolls) Paisley Grammar School, a successful comprehensive with a 400-year history. The council argued that it was a "magnet" school – parents were opting to send their children to it from less popular schools which were being left half-empty.

The appeal from staff and parents at Paisley Grammar went as far as Downing Street. Whether or not at the bidding of Mrs Margaret Thatcher, the Scottish Office issued a rule that the Secretary of State had to approve the closure of any school with 80 per cent occupancy, thus neatly saving Paisley Grammar School. It was a crude measure, heavily criticised by much of the Scottish Press, the Labour Party and the local authority. But the sheaf of approving letters to the newspapers suggested that the Government was for once in tune with much of Scottish opinion.

Even so Mr Forsyth faces a much more self-confident educational establishment in Scotland than Mr Baker confronts. Whatever the faults of the Scottish system, they are much less glaring than those south of the border. As a result, his interventions appear to have a more obvious political motivation than those of Mr Baker. That presages more conflict between the establishment and the man whom Mr Malcolm Rifkind, the Scottish Secretary, once called a "pragmatic ideologue".

The World Economy

No rush to balance the US current account

By Norbert Walter

DIAGNOSES of the world economy have a consensus that the current account deficits of the US and the surpluses of Japan and Europe cannot go on forever.

For the most part, it is taken for granted that the American current account should be in balance by about the mid-1990s. An external US debt in excess of $1,000bn (£543bn) is considered unacceptable. It is generally felt that increasing indebtedness would undermine investors' confidence in the US and raise doubts as to its ability to pursue truly independent policies and assert political leadership.

Calculations quickly show, however, what serious implications a rapid phasing out of the US current account deficit would have for its trading partners. Restoring equilibrium in the current account by 1995 would require a US recession, or growth rates in Japan and Europe well above those of the last 15 years, or rapid structural change.

Monetary and fiscal policy measures, as well as further changes in the exchange rate, have been suggested as instruments to achieve these goals. Since a nation's leaders usually ignore their partners' proposals for modifications to their national monetary and fiscal policies, the only flexible mechanism left is the exchange rate.

A recession imposed by Europe is politically unacceptable to the US. The Europeans (with the West Germans to the fore) find it unrealistic that they should achieve expansion of 3.5 per cent instead of the 2 per cent average of the last five years. And more rapid structural change towards greater export orientation in the US would take time to achieve, just as strengthening domestic capital investment in Europe would. It seems reasonable to ask, therefore, whether a balanced US current account by 1995 is a reasonable target, or whether it would not be better to accept a longer period of adjustment.

The global economic division of labour can be considered optimum when economic potential has been fully exploited through trade and factor migration (including capital, labour and know-how). So one would expect export surpluses in the rich countries and corresponding capital exports to developing ones.

This transfer of resources has been disturbed by a loss of confidence in the political stability and economic rationality of developing countries. At present, achieving optimum solutions is probably only feasible among the industrialised nations; between them, however, significant differences have emerged that affect the current account situation.

In the US, the potential labour force has been expanding at a substantially weaker rate since 1985 than in the preceding 10 years, while in Europe, and especially in Germany, it will continue to grow strongly until the beginning of the 1990s. In Europe, a markedly higher proportion of the labour force is unemployed. For these two reasons, European production may increase for several years at a stronger rate than productivity.

But at the same time the European population is hardly increasing – West Germany's is falling. Consequently, the demand for many products and public investment is limited. This means that conditions favouring surplus production in this part of the world are pronounced.

There are clear indications – and this applies to Japan, too – that the ratio between natural demand and output potential will be reversed by about the turn of the century; fewer gainfully active West Germans will have to provide for more elderly citizens. Probably, their country will then have a "natural" propensity towards a current account deficit. Such a time framework for current account adjustment processes would be in line with national population dynamics.

A policy incorporating macroeconomic restriction in the US, shorter working hours in West Germany and a massive revaluation of the D-Mark would probably have restrictive effects lasting for several years. Macroeconomic expansion in Europe, a protectionist stance in the US, a delayed reduction in subsidies and retarded deregulation would probably have an inflationary effect.

A strategy which "stretched" the time available for current account adjustment and used the phase of relatively plentiful labour in Japan and Germany to accumulate financial capital in these countries – mirrored by liabilities in the US, which has the greatest scope for development in the medium term – would be far better than rapid adjustment. That would provoke either over-hasty structural adjustment, with its concomitant dangers of recession, or protectionist tendencies with their risks of inflation.

A long-range policy would require more generous time scales in business and politics. While this would suit the business community, a timetable extending beyond the present millenium would be very ambitious for politicians who face elections every two to five years.

The "quality" of capital flows would have to change to facilitate such extended adjustment. To dispel fears that the growth of America's external debt to more than $1.5 trillion would precipitate a world-wide loss of confidence, more capital would have to flow into the US in the form of equity.

This would change things in two important ways. First, servicing capital would depend on earnings, that is, US recipients would not be in danger of having to meet fixed capital service commitments in adverse times. Second, investments of this kind would usually ensure that Japanese and European capital would not be channelled into consumption (be it government or private) in the US. And in this way, companies based in the US would acquire an international outlook, without the need for government action to ensure it.

It is just as important to bear in mind the wealth-creating character of such investment. With the income from (or the sale of) foreign assets, the Japanese and Europeans could finance trade deficits from about the mid-1990s, thus sustaining a relatively acceptable standard of living in their old age.

Future economic summits should concentrate on improving the long-term prospects for world economic development by ensuring that trade, capital flows and the exchange of know-how are possible without restriction and in accordance with market criteria. Is it not striking that hardly anyone has mentioned the permanent current account deficit of the Rhine-Main region? Apparently, all involved find it advantageous to invest more capital in the region than is saved there.

The author is Senior Economist at Deutsche Bank.

Letters to the Editor

Action taken on delayed settlements

From the Deputy Chairman of the Stock Exchange.

Sir, Mr John Fontannaz's letter (March 5), expresses concern over delayed settlement and suggests that "action by the 'authorities' should be imperative," I would like to point out that the Stock Exchange has taken action. In July 1987 it established a Settlement Task Force whose brief was to identify and take measures to resolve difficulties faced by the entire securities industry in the efficient and speedy settlement of bargains.

A number of steps have been taken by the Task Force to reduce the backlog of unsettled bargains. These include bringing pressure to bear on Member Firms by setting targets, imposing fines, restrictions on trading, and other penalties. As a result of this work the outstanding settlement position has been reduced substantially. The backlog of unsettled bargains is now 50 per cent below the peak reached in August 1987 and 15 per cent below the level of April 1987. A permanent Performance Monitoring Unit has now been established to continue these initiatives.

Mr Fontannaz states that "the surveillance department of the Exchange informs me that the furnishing of certificates falls outside their jurisdiction." Whilst it is true that the Surveillance Division cannot itself produce share certificates (this has to be done by individual company's own registrars) the Surveillance Department will ensure that all possible steps are taken to speed the prompt delivery of share certificates.

It is also worth pointing out that the investor becomes the beneficial owner of securities as soon as the bargain is struck, not when the share certificate is produced. In circumstances when a client, through no fault of his own, is unable to deliver the certificate, the broker who was responsible for the purchase of the stock will normally be willing to sell the stock prior to the delivery of the certificate.

Graham Ross Russell,
The International Stock Exchange of the United Kingdom and the Republic of Ireland,
EC2

Forestry policy see-saw

From Mr A. MacKenzie.

Sir, Bridget Bloom's article ("Unlovely as a Tree", March 10) clearly demonstrates the Forestry Commission's inability to respond to changing market conditions.

When first set up, the Commission's policy was twofold. First, to replenish the forest resource of the country which had for centuries been depleted by mismanagement. Secondly, to reduce the heavy import bill of buying forest products from abroad.

After the Second World War, domestic production of sawn goods accounted for 5 per cent of total consumption, now the figure has risen to nearer 15 per cent. The Forestry Commission has too many masters with too many conflicts of interest. One cannot protect wildlife with import reductions.

Forestry is by its nature a long-term investment and decisions made 50 years ago have to meet today's requirements.

In the last 10 years we have seen the requirements of timber for newsprint production fall from 500,000 tons to 150,000 tons and by 1990 come back to 400,000 tons. In the intervening period, domestic wood has been exported to Scandinavia to help meet their shortfall, at loss-making prices, only to return in the form of imported paper – the very thing the initial policy was trying to avoid.

How can a forestry policy adapt to such changes in market conditions?

A. MacKenzie,
Corran House,
12 Eden Close,
Wilmslow,
Cheshire

US policy in Panama

From Tony Banks MP.

Sir, I find it difficult to agree with the arguments advanced in your editorial (March 9) that the US Government wants the removal of General Noriega on the grounds of ethical consideration and the military's stranglehold on power in Panama. Even were those judgemental points accurate it would still seem odd that Noriega had been singled out for special attention by Washington. After all, the current US Administration lives with the existence of death squads in El Salvador and dictators such as General Pinochet, President of Chile, and Alfredo Stroessner, President of Paraguay, without organising destabilisation campaigns against the governments of those countries.

The campaign against Noriega seems to be based rather more on his unwillingness to co-operate with US policy in respect of the 1977 Carter-Torrijos treaty which requires all US military to leave the Canal Zone by the end of 1999. The destabilisation of Panama would seem to be the first step in changing or maybe dumping the treaty, and since Noriega is clearly an obstacle he must be removed.

It will prove a difficult task with all the possibilities of a bloody confrontation.

Tony Banks,
House of Commons, SW1

If intended for publication, Letters to the Editor should include, where possible, a daytime telephone number

Multiples are easy targets

From Dr Alan McKinnon.

Sir, In a report published recently by the National Institute of Economic and Social Research it is argued that the concentration of retail buying power in the UK has not contributed significantly to the growth of consumer goods imports.

This conclusion takes no account of the fact that the mere existence of large multiples, most of them with highly centralised distribution systems, enables foreign manufacturers to gain extensive market coverage with a comparatively low level of logistical and sales support. The sales effort can be focused on the head offices of a few large chains and the goods channelled in bulk through their distribution centres. This is a much easier and cheaper exercise than distributing imported goods in markets, such as that of Japan, where the wholesale and retail trades are highly fragmented.

Alan C. McKinnon,
Heriot-Watt University,
Edinburgh

Britain should be leading, not lagging behind, in the race to 1992

From Mr Bryan Cassidy MEP.

Sir, Guy de Jonquières's assessment of "the City's" preparedness for 1992 (March 1) makes disturbing reading.

If Britain's financial services are to take full advantage of the liberalisation of markets, a more positive approach is needed. The acquisitions, mergers and rationalisation going on at the moment in European banking are happening without, so far, any visible British participation.

Similarly, as yet, very few British companies have significant cross-border acquisition activity within Europe. Yet, in North American markets they are almost hyperactive. But if European industry is to compete in world markets, we need to create pan-European companies. In many sectors, Europe is fragmented and uncompetitive compared with Japan, the US and – increasingly – South Korea, Taiwan and Singapore. With sophisticated financial services and, in Europe, unrivalled sources of funds, Britain should be leading, not lagging, in the process of rationalisation and concentration.

There are some very attractive acquisition prospects on the continent at the moment. The trouble is that the institutions whose job it is to advise on mergers and acquisitions are woefully ignorant of the Continental scene. Very few British merchant banks have a presence there and in consequence do not know what is going on. Fortunately, there are Continental Banks operating in London who are prepared to fill this gap.

It would be ironic, would it not, if the result of the Big Bang and of 1992 led to British firms being acquired rather than doing the acquiring? Guy de Jonquières's article and the remarks from various City luminaries which he quotes reveal that this is a very real danger.

Bryan Cassidy,
The Stables,
White Cliff Gardens,
Blandford Forum,
Dorset

From Mr Stefan Zehle.

Sir, With reference to Guy de Jonquières's article on West Germany's financial markets (March 4) in his series on the EC single market, I can give an apt illustration of the difficulties any foreign bank which tries win medium to small corporate clients in West Germany will have to face.

During a market study on purchasing criteria for industrial carpets, the senior buyer for interiors of a major German bank was interviewed. He declared, quite openly, that criteria such as price or quality of a carpet for a large administrative building of the bank were totally unimportant. What really mattered was whether there was a local carpet manufacturer who was a customer of the bank.

Even if the EC requires German banks to limit their shareholdings in industry this may have no effect on the special ties which link German banks with their customers.

Stefan Zehle,
Bermann Partners,
21-22 Nassau Street, W1

FINANCIAL TIMES

Monday March 14 1988

Year-end deadline set for reform of US futures

By Deborah Hargreaves in Boca Raton, Florida

THE US futures industry has until the end of the year to come up with its own initiative for reform if it wants to keep Congress out of its markets.

This is the message that emerged from the industry's annual convention in Boca Raton, Florida, last week, where Congressmen and regulators alike urged a co-operative approach towards some of the difficulties highlighted by October's stock market collapse.

Although many in the staunchly free market futures industry still harbour a secret hope that they will be able to escape further regulation, Congressmen warned that the issue would be dealt with "down the line," and that the industry should not become "wrapped up in a self-deluding cocoon."

Given Washington's current preoccupation with election year, changes in futures regulation are not likely to be forthcoming until next year, when the Commodity Futures Trading Commission (CFTC), the regulatory body for the futures industry, comes up for re-authorisation.

"You should use this breathing space to come up with your own programme, but it's got to have teeth in it and it's got to be effective," urged Mr Howell Heflin, a Democratic senator from Alabama and member of the Senate Agriculture Committee.

The futures industry has already taken several measures aimed at countering criticism that its markets' behaviour aggravated the October collapse. It has imposed price limits on stock index futures contracts and raised margin payments.

For its part, the New York Stock Exchange has restricted access to its automated order entry system for programme trading or stock index arbitrage – a strategy that exploits the differences between the two markets by buying in one and selling in the other. And several big brokerage houses have announced they will stop using the strategy.

However, reforms of this sort threaten to do more harm than good if they are not co-ordinated between markets, according to Mr Robert Glauber, a member of the Brady Commission set up by President Reagan to look into the market crash. "Ruling out index arbitrage is like shooting the messenger," he said, arguing that it had a useful role in keeping the two markets together.

So far, there has been no concerted approach to matching reforms in both markets to ensure, for example, that "circuit breakers" – price limits – in place in the futures market do not offload pressure on to the stock market during periods of volatility.

Futures industry officials stress they have kept up informal contact with securities market participants, yet there is still a barely disguised antagonism between the two sectors and any approach at co-operation has been piecemeal.

In recognition of the need to establish a more formal forum for sharing information, futures officials are talking of joining the Intermarket Surveillance group which is already in operation in the securities business.

In opening a talking shop across the markets, the futures industry hopes to forestall the imposition of an additional regulatory body to oversee both securities and futures markets – an idea suggested by several reports on the crash.

The futures exchanges strongly oppose another layer of regulatory bureaucracy or any attempt to give the Securities Exchange Commission jurisdiction over stock index futures – as the SEC has suggested.

In this antipathy to increased regulation, a suggestion made at the conference by Mr Patrick Leahy, a Democratic senator from Vermont, for an intermarket co-ordinating council to link surveillance of stocks and stock *index products received a cool* reception.

Senator Leahy, who has drafted a bill to form the council, suggests it should include representatives of the SEC and CFTC as well as the Federal Reserve chairman and the Treasury Secretary. The council would be responsible for the overseeing and fine-tuning of existing regulation in the stock index area, and would be charged with ultimate authority in an emergency.

Senator Leahy's council would also investigate a joint clearing system for the market.

In an effort to improve the functioning of the industry's clearing process, the Chicago Board of Trade has sponsored the sharing of the "pay and collect" information system established by its own clearing corporation.

Trying to forget the past
Page 24

The mild weather is helping to lift West Germany's performance, reports **Andrew Fisher**

Winter sun shines on the economy

THE WEST GERMAN economy entered 1988 with a spring in its step. The unusually mild winter and continued strength in exports and new orders have prompted experts to upgrade their earlier, gloomy forecasts of the country's growth prospects.

Both German and foreign economists are more optimistic about the chances of economic expansion this year, although some warn that 1989 could prove difficult. The longer-term outlook is also clouded by the much debated rigidities in the German economy.

"The exaggerated pessimism has now gone," said Mr Thomas Neisse-Krabbenhoeft, chief analyst at Degab, the securities analysis arm of Deutsche Bank. "People are not so worried about an economic collapse as they were in January. Then, if you said there were encouraging signs, you were laughed at. Now, confidence is certainly stronger, without becoming euphoric."

Because of the mild weather compared with last year's harsh winter, growth in the first quarter is likely to be between 3 and 4 per cent on a year ago. In 1987, the bad weather caused a first-quarter drop of 1.7 per cent. The Bundesbank said that without the extreme cold of early 1987, gross national product would have grown by 2 per cent last year instead of 1.7 per cent.

Two particularly optimistic views about 1988 come from Mr Ernst-Moritz Lipp, chief economist of Dresdner Bank, and Mr William Ledward, European economist with Merrill Lynch Capital Markets in London, who both expect at least 2 per cent growth. Degab is going for 1.5 per cent, Citibank AG for about 1 per cent, and the Government for between 1.5 and 2 per cent.

> 'The exaggerated pessimism has now gone. People are not so worried about an economic collapse .. ..confidence is stronger, without being euphoric'

"The wind is changing," said Mr Lipp of the less pessimistic mood. "The effects of the stock market crash and the dollar's fall were exaggerated. The trade, order and production indicators all show that there are no signs of a recession or stagnation."

In January, both production and orders were higher. Even the mechanical engineering industry, which expects output to ease further this year, reported a rise in foreign and domestic orders in the November-January period. But engineering companies' profits are shrinking and short-time working has increased as competition intensifies abroad and capital investment growth remains weak at home.

Consumer spending remains strong, however, supported this year by tax cuts worth some DM14bn ($8.4bn) and lower interest rates. UK stockbroking firm Phillips and Drew expects disposable income to rise by nearly 4 per cent. "There is scope for further increases in spending without inflationary pressure," said Mr Mushtaq Shah, a Phillips and Drew economist.

Although foreign sales have remained resilient – the 1987 trade surplus, at DM117.5bn, was DM5bn higher than in 1986 – he added: "The worries around the corner for Germany continue to be its strong export-orientation and its dependence on currency movements." Thus further dollar falls, prompted by the US current account deficit, and a likely European Monetary System realignment later in the year could put pressure on exporters.

Most of Germany's exports go to Europe. Last year, export volume to the EC rose by 4.5 per cent in contrast to declining sales to the US and Opec countries. "Exports have been astonishingly stable," commented Ms Ute Geipel, chief economist at Citibank AG in Frankfurt. She and others noted, however, that Germany had benefited from the lack of an EMS realignment for more than a year. Such a change of parities, involving a D-Mark revaluation, is widely expected after the French presidential election in May.

The dollar's recent firmness is not expected to last. Last week it was under DM1.66, having eased in recent days. At the end of December, it was under DM1.60. Phillips and Drew is forecasting an end-1988 rate of DM1.57, though Ms Geipel, who also expects the dollar to weaken, said it could benefit at the year-end if US Vice-President George Bush became President.

The Kiel economic research institute expects an average rate for 1988 of DM1.60. It cited the expectation of a lower dollar rate as a reason for the slow pace of industrial investment at home. But with rising domestic consumption backed by unrestrictive monetary and fiscal policies, it reckoned with a continuation of the economic improvement in 1988.

The institute forecast at least 1.5 per cent growth, but warned that costs would rise in 1989 as the dampening effect on prices of lower oil prices and the higher D-Mark ebbed away. This would lead the Bundesbank to brake monetary expansion, and rising *interest rates would deter private* consumption and industrial investors. Other economists also noted that next year would not benefit from further tax cuts.

Breakdown of cocoa talks puts 1986 agreement in jeopardy

BY DAVID BLACKWELL IN LONDON

CRISIS TALKS at the International Cocoa Organisation (ICCO) broke up in the early hours of Saturday with no agreement on further measures to halt the inexorable slide in cocoa prices.

The failure of the London talks, which have continued for the past fortnight, could put the 1986 cocoa agreement in jeopardy.

"We really could be seeing the death throes of the agreement as a force in the market," one consumer delegate said yesterday.

Furthermore, prices – already at their lowest levels for more than five years – are likely to fall again today.

The price of the benchmark second position futures contract closed in London on Friday at £955 ($1,757) a tonne, the lowest closing level since September 1982 and a fall of £48 since the talks started.

Analysts believe that, in the face of a massive oversupply of cocoa to the world markets, the price will soon be testing the £900 a tonne level and below.

The sticking point has been the level of prices to be defended. Last Wednesday producer countries blocked discussion on a downward adjustment of support prices, which were reduced only in January by 115 Special Drawing Rights a tonne to between SDR 1,465 and SDR 2,155 a tonne.

Consumer countries were adamant that the rules required a further cut, as 75,000 tonnes had been bought for the buffer stock in only six weeks. But the latest purchases took the buffer stock – designed to support prices by taking cocoa off the market – to 250,000 tonnes, the maximum permissible under the agreement.

Producers were equally adamant that as the buffer stock was already full, defence prices should not be reduced further.

The two sides did agree on Saturday morning that the issue should go to arbitration. However, the panel which will adjudicate the issue will make non-binding recommendations, and these are unlikely to be discussed before the next ICCO Council session in September. Meanwhile, all support measures remain frozen.

The producers were keen to go ahead with a withholding scheme which theoretically could have taken another 120,000 tonnes of cocoa from the market by keeping it in storage in countries of origin.

However, the talks also failed to get to grips with the question of arrears in levies of more than $40m owed to the ICCO by the Ivory Coast, the world's biggest producer, and Brazil.

The manager of the buffer stock, who is not allowed to incur any liabilities, estimated that at the outside he could have financed the withholding of 30,000 tonnes, in addition to maintaining the quality of the cocoa in the buffer stock.

Meanwhile, traders have been estimating a surplus of up to 140,000 tonnes of cocoa from the 1987/88 crop year alone.

Reagan warns on revised trade bill

By Anthony Harris in Washington

PRESIDENT Ronald Reagan warned on Saturday that the Omnibus Trade Bill before Congress still contained features that he would feel compelled to veto, but he added that he was "encouraged" by the progress of congressional negotiations on the bill.

There are clear signs that many of the Democrats who had favoured a tough trade bill as an election issue have lost their enthusiasm for a contest over a veto.

The President's decision to devote the whole of his Saturday radio talk to the nation to the issue was therefore significant. Opponents of the protectionist clauses in the bill sponsored by the House of Representatives have been greatly encouraged by the poor performance of Rep Richard Gephardt in the Super Tuesday primaries, and the President has seized the opportunity to drive the point home.

He said that a protectionist bill would threaten the current export boom, and that the draft bill contained clauses which were "anti-trade, anti-consumer, anti-jobs and anti-growth."

A number of subsidy and quota proposals in the bill have already been dropped, and the amendment in the name of Rep Gephardt, which would bind the Administration to retaliate against "unfair" trade practices by any country with a large bilateral trade surplus with the US, has been taken off the agenda for the time being.

Its supporters – notably the Union of Auto Workers, which has been the main contributor to Rep Gephardt's campaign for the Democratic nomination – concede that it is unlikely to be revived.

However, the Senate version of the clause is also regarded as threatening by Washington trade experts.

UK plans big cable TV advance

BY RAYMOND SNODDY AND DAVID THOMAS IN LONDON

THE UK Cable Authority is planning its biggest ever franchising round which could eventually make available more than 20 channels of television to over 2m extra homes.

The biggest single element in financing the franchises, which will almost double the number of people with access to cable television in the UK, is likely to come from large US companies.

The Cable Authority, which controls Britain's cable television industry, is now so confident that finance is available for a big advance for cable that it intends to advertise 10 franchises simultaneously within the next few weeks.

The franchises to be advertised, which will need more than £500m ($920m) to develop, will cover large parts of Britain.

The Cable Authority does not normally advertise franchises unless it is certain that viable companies are prepared to bid for them.

United Cable Television of the US is pressing the Cable Authority to be allowed to boost its cable interests in the UK substantially.

Mr John Starr, United Cable's chief representative in the UK, confirmed that it was interested in offering such services in any franchise areas which it won.

The company last week agreed to merge with United Artists Communications, another US concern, which will create a group with about 2m cable subscribers, making it one of the largest cable television operators in the US.

United Cable is understood to have told the Cable Authority that it wants to take a leading role in four new British franchises.

The American company would almost certainly seek British partners to develop these franchises, which would cover more than 1m homes and probably require more than £200m ($368m) in investment.

United Cable has a 44 per cent stake in the franchise covering an area in south London and is on the point of finalising details of its participation in another franchise, for which it is providing the bulk of the capital and the management expertise.

The UK Cable Authority has been keen to find ways in which US participation in cable development can be made consistent with the law forbidding a non-EC company from holding a majority stake in a British cable franchise. One method is to give voting control to British partners even if the majority of capital comes from a US company.

Prudential Bache, the securities and financial services group, is another US company seeking to develop its British cable interests.

Editorial comment, Page 20

UK budget

Continued from Page 1

mounting upward pressures on the pound.

The consensus in the City of London has been that Mr Lawson will have room to announce tax cuts of around £3bn and a small surplus on the public sector borrowing requirement on Tuesday. The view in Whitehall, however, is that government revenues are even higher than generally appreciated, and that the projected PBSR surplus may be several billion pounds.

Illinois primary crucial to Dole hopes

Continued from Page 1

But his chances, too, are mixed. Although he leads the polls it is only by about 5 percentage points, a figure which is well within the margin of error for the survey data. Moreover his closest challenge, Mr Jesse Jackson, is assured of solid support in Chicago's large black community.

Mr Simon is being directly threatened by the nominal front runner in the Democratic race, Governor Michael Dukakis of Massachusetts. Mr Dukakis has launched a full blown advertising campaign partly targeted at Mr Simon in an effort to boost his support and his delegate totals.

Although Mr Dukakis only appears to have the support of about 20 per cent of Democratic voters the evidence of the campaign so far this year suggests that this sort of advertising blitz could eat into Mr Simon's base.

Mr Simon does not have the financial resources to respond in kind and is charging the Dukakis campaign with trying to "buy the election not win it."

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	14	57	Dubrovnik	S	15	59	Malta	S	17	63	Rhodes	S	14	57
Algiers	S	21	70	Edinburgh	C	3	37	Manchester	R	7	45	Rio de J'o	S	31	87
Amsterdam	R	3	37	Faro	F	15	59	Manila	F	35	95	Rome	F	13	55
Athens	S	15	59	Florence	C	12	54	Melbourne	C	19	66	Salzburg	Sn	0	32
Bahrain	S	21	70	Frankfurt	D	2	36	Mexico City	F	25	77	San Francisco	F	20	68
Bangkok	S	34	93	Funchal	C	18	64	Miami	C	23	74	Seoul	S	13	55
Barcelona	S	14	57	Geneva	F	10	50	Milan	S	15	59	Singapore	C	31	88
Beirut	R	16	61	Gibraltar	S	15	59	Montreal	C	3	37	Stockholm	S	-3	27
Belfast	R	8	46	Glasgow	F	2	36	Moscow	Sn	-3	27	Strasbourg	R	7	45
Belgrade	Sl	2	36	Guernsey	C	9	48	Munich	Sn	1	34	Sydney	S	26	79
Berlin	Sn	2	36	Helsinki	Sn	-2	28	Nairobi	F	29	84	Taipei	S	29	84
Biarritz	S	13	55	H. Kong	C	26	79	Naples	C	13	55	Tangier	F	19	66
Bombay	S	30	86	Innsbruck	C	3	37	Nassau	F	25	75	Tel Aviv	R	13	55
Bordeaux	F	12	54	Inverness	F	1	34	New Delhi	F	27	80	Tenerife	S	22	72
Brussels	D	6	43	Islamabad	C	20	68	New York	C	13	55	Tokyo	F	15	59
Budapest	C	4	39	Istanbul	C	12	54	Nice	S	14	57	Toronto	R	-2	28
B. Aires	R	23	73	Jakarta	C	31	88	Nicosia	R	16	61	Tunis	S	20	68
Cairo	C	19	66	Jersey	F	10	50	Oporto	S	15	59	Valencia	S	21	70
Cape Town	Fg	20	68	Jo'burg	S	23	73	Oslo	S	1	34	Venice	S	9	48
Caracas	F	26	79	Lima	F	26	79	Paris	R	8	46	Vienna	C	3	37
Casablanca	C	23	73	Lisbon	S	17	63	Peking	S	17	63	Warsaw	C	-1	30
Chicago	Sn	13	55	London	C	11	52	Prague	F	1	34	Washington	-	-	-
Cologne	R	2	36	Los Angeles	F	22	72	Reykjavik	C	-8	18	Zurich	F	6	43
Copenhagen	C	2	36	Luxembourg	C	5	41								
Corfu	C	13	55	Madrid	S	15	59								
Dallas	-	-	-	Majorca	S	15	59								
Dublin	R	9	48	Malaga	F	19	66								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Leipzig trade fair

Continued from Page 1

has been steadily improving. "But it's just the icing," he adds quickly, before moaning anew about the problems of doing business here.

Siemens also acknowledges that its East German opposite number, Robotron, produces enough interesting things to make it worth bartering with. But the Siemens salesman, Mr Reinhold Gilbers, could not resist recalling that a couple of years ago Siemens displayed a sophisticated, but faulty, model of a new piece of equipment which was eagerly photographed and copied by Robotron and – surprise, surprise – it didn't work.

So why do they come? "Well, we do some business and we are all hoping for the future," according to Mr Gert Ulrich from the Bonn Chamber of Commerce.

He is hoping that if the orders do come they will end up in his state, North Rhine Westphalia, and not in any of the other 10 West German states.

THE LEX COLUMN

A market spoilt for choice

A 5 per cent rise in the stock market over the last month seems a slightly grudging prelude to what promises to be the most generous budget for decades. On the face of it large tax cuts can only be good news for equities, whereas a PSBR of less than nothing must lend strength to gilts.

But investors, who are still convalescing from the crash, seem prepared to take only so much good news on trust; better to wait for the facts before reacting fully. They may also be discouraged by the unusual lack of consensus over the Budget sums – the Chancellor has so much to give away this year that there is a great deal of scope for surprise. The City expects anywhere between £2.5bn and £4bn of tax cuts and a PSBR in between zero and a surplus of £2bn, so almost any outcome will demand a market response. Anything that looks like a giveaway budget could upset the gilt market by undermining confidence in the Government's anti-inflation policy, whereas the bigger the tax cuts the more the equity market will like it.

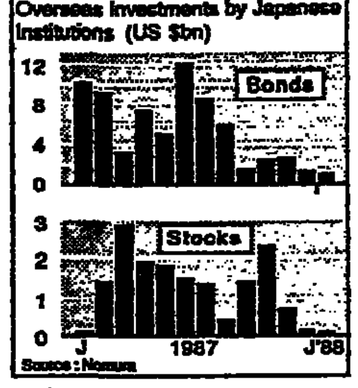
On balance, a budget which the market would term imprudent looks unlikely; the Chancellor will not wish to be seen to be giving too large a stimulus to what is still a booming economy. However, the result need not be a better budget for bonds than shares, since a middle course which includes tax cuts of say £3bn and a PSBR surplus of £1bn should please everyone. Moreover, Mr Lawson has plenty of room for all sorts of minor treats for the equity market, such as a cut in corporation tax, the elimination of stamp duty or a host of measures to encourage saving, any of which would be well received.

The real risks lie in the foreign exchange markets rather than in Mr Lawson's battered briefcase. The recent rise in the pound is a threat to corporate earnings, while the Government's willingness to let sterling move above DM3, rather than cut interest rates, makes the usual post-budget drop in base rates look like a long shot this time.

Japan's investors

If the rise in the Tokyo market since the beginning of the year shows how much Japanese investors believe in Japan, it also highlights how little faith they have these days in the outlook for foreign financial markets. Japanese institutions have in the past three years become increasingly active and sophisticated in putting their funds overseas, mainly in the US. But all that experience, often acquired at the cost of heavy exchange losses, now seems to be telling Japanese investors to keep a low profile abroad, and in the US in particular.

Japan
Overseas Investments by Japanese Institutions (US $bn)



Source: Nomura

The underlying reason for this caution is of course the contrast between the prospects for Japanese and US economic performance. At home, surging domestic growth is easily compensating for the slight decline in exports induced by the high yen. After some doubts a year ago, investors now believe that only the biggest external shock could knock the Japanese economy off course. Corporate profits in the current financial year to end-March are expected to grow by an average of 20 per cent, with a further 12 per cent rise predicted by Nomura Securities for the new year from April. After a near 20 per cent surge since the beginning of the year, share prices may be due for a correction; they are, after all, within 10 per cent of the pre-crash peak. But present levels also reflect confidence in the outlook not just for the next six months but for a few years at least.

As for the US economy, Japanese investors do not believe that the outlook is necessarily bleak, but they are mostly convinced that it remains highly unpredictable. There are economists in Tokyo who argue for a rapid reduction in the US external deficit, pointing in particular to rising labour productivity in America and suggesting (in passing) that this perhaps reflects the rising number of Japanese-owned factories. But there is more support for the pessimistic view: that improvements in the trade balance will be slow and will be offset by the increasing cost of servicing foreign debt.

So, for instance, Nomura forecasts a 1988 current account deficit of $161bn, scarcely different from an estimated $165bn for last year. It is accepted in Tokyo, too, that the forthcoming US election has ruled out quick action on the Federal deficit; and there is agreement with the widely held view that, even given the political will, the policymakers would have limited room for manoeuvre. Too few cuts and nothing changes; too many and the risk of recession is increased.

As a result, Japanese investors are wary of the relative stability of the foreign exchange markets since the beginning of the year. Few are now tempted to sell dollars heavily in the face of the central banks' apparent determination to maintain the status quo, but there are even fewer prepared to make big bets that the dollar has bottomed out. Japanese investment in foreign stocks and bonds has recovered since slumping in January to $1bn – against a peak last June of over $12bn – and the figures for February could be as high as $10bn, well up to last year's standards. However, such a total would be an exaggerated measure of recovery of confidence in the dollar; Japanese investors have lately taken to hedging their dollar investments with currency futures and options on a much greater scale.

Japanese institutions of course realise that they must continue investing abroad in order to use the country's trade surpluses productively. If nothing else, the choice of profitable domestic alternatives is simply insufficient. In fact, by no means all the funds which have been kept out of US financial markets have stayed home. Some have been directed towards Europe, especially the UK and West Germany. More have been channelled into direct investment, above all real estate. Overseas direct investment – basically, property – was $3.2bn in January, against an average of $1.9bn a month in the second half of last year.

However, the strength of property as a means of spreading risk cannot, for liquidity-conscious institutions, be a substitute for long-term acquisition of stocks and bonds. It follows that Japanese institutions are certain to become heavy buyers once again in US financial markets at some point in the future. Just at present, though, they need more evidence that the dollar can stay in the region of Y130 without central bank support. Otherwise, this year as in the second half of last, it will be public money, not private, that will have to prop up the US currency.

FINANCIAL TIMES
Monday March 14 1988

INTERNATIONAL BONDS

Eurosterling bonds snatch defeat from victory again

THE SPOTLIGHT fell on the sterling sector of the Eurobond market last week, as the pound climbed on the foreign exchanges after the UK Government's decision to let it soar through the DM3 barrier on Monday.

Though confusion over what the move actually meant for government policy was unsettling, the currency's rise nevertheless boosted the gilt market and provided a favourable setting for the Eurosterling new issues market.

However, the Eurobond market in its familiar way managed to snatch defeat from victory by launching too many new issues too quickly: £525m worth of them, and all with five-year maturities.

Admittedly, the bonds for Barclays Bank Finance and Ford Credit Funding met a fair reception, the one because of the retail appeal of Ford's name and the other mainly because of its size, £250m, which held the promise of liquidity.

But severe indigestion set in with the appearance of the two bonds for UK building societies, National & Provincial and the Halifax, in rapid succession on Thursday morning. This was despite the fact that neither bond was considered aggressively priced.

The moment dealers spotted them, they marked prices in both the Eurosterling secondary market and the primary market down by about ½ percentage point. Yield margins over gilts shot out by up to 10 basis points.

This reaction provided further evidence of the market's growing *ennui* with building society bonds.

The problem is that the societies have already issued a pile of Eurosterling bonds since they were first allowed to tap the sterling floating-rate note sector in 1985, and the indications are that they will issue an awful lot more.

Intense competition in the UK mortgage market is putting them under pressure to expand their loan books. Their ability to do so has been improved by the inflow of retail deposits since the stock market crash. But this increase in retail funds also increases the amount they can raise in the wholesale markets.

Each of the larger societies can raise up to 40 per cent of its total liabilities by wholesale means. At least some of this funding is likely to be carried out in the Eurobond market.

Perhaps if the societies chose to issue in large amounts, their issues would meet a firmer reception, since they would then at least have the advantage of liquidity. But in fact they are much more likely to tap the market a *little* and *often*.

This is partly because they are required to swap all the proceeds of an issue into floating-rate sterling immediately. The sums that can be swapped all at one go in the swap market are limited.

The continual threat of further supply undermines demand for building society bonds because yield margins over gilts, though they may recover in the interim, are always liable to widen out the next time a window opens in the swap market, and the building societies pile in.

At the same time, most of the societies have fixed and fairly demanding cost-of-funds targets – which cannot be met by deals in the FRN market at the moment. So their fixed-rate issues always tend to be bunched around the times when a really good swap opportunity opens up.

They thus have a built-in tendency to spoil one another's market.

The appearance of the issue for the Halifax within half-an-hour of the National & Provincial's bond was the most extreme example of this tendency the market had seen so far.

If they had convincingly managed to expand the investor base for their paper, the situation would not be so bad. But, despite strenuous efforts by the societies to explain who they are, dealers still say Continental investors are not really interested.

So the pool of potential investors is still mostly made up of the banks, corporates and general insurance companies in the UK. Other UK institutions are looking for longer-dated bonds.

No-one is suggesting investors have actually reached the limits of their capacity to buy building society paper, yet there is concern that they are beginning to suffer from what one market observer calls the "stamp collector's syndrome." If one page of the album is already made up of the same sort of penny stamps, the prospect of starting another identical page in the album is rather boring.

Elsewhere in the market, the European currency unit was providing a focus of new issue managers' attention, despite disconcerting strains within the European Monetary System arising from the dollar's weakening against the D-Mark.

The Ecu sector has been enjoying a modest revival this year after a long period of decline, with successful deals for such borrowers as Banque Française du Commerce Exterieur and Austria being brought to market. Last week, Union Bank of Switzerland (Securities) attempted to achieve the same success with a bond for the European Investment Bank, but priced it too optimistically.

Still, the market was well underpinned by demand from European institutions, which have been the main takers of Ecu bonds this year.

Prices have been driven steadily upwards over the last two months, thanks to a combination of lack of supply of new paper and some switching into the Ecu market out of West German domestic bonds after last November's announcement that they would be subject to a 10 per cent withholding tax from next year.

Indeed, dealers say the Ecu market now looks historically expensive when set against the theoretical Ecu yield (the aggregate of government bond yields in the different currencies making up the Ecu).

Some suggest switching back into the West German government bond market, arguing it has overdiscounted the impact of withholding tax.

Clare Pearson

Salzgitter advances to DM65m despite collapse in turnover

BY DAVID GOODHART IN BONN

SALZGITTER, the state-owned company which is one of the restructuring success stories of the West German steel and shipbuilding industries, has reported an increase in profits to DM65m ($39m) for 1986-87.

The improved profit figure, up from DM61m in 1985-86 and from a loss of DM422m in 1983-84, comes despite a drop in turnover from DM11.05bn to DM9.91bn.

It also comes despite a sharp drop in the gross profit of the steel and transport division from DM96m to DM41m. This was more than compensated for by the engineering, shipbuilding and rail division, which pushed up gross profit from DM28m to DM37m, and the machinery and components division, where gross profit rose from DM19m to DM37m.

The steel and transport division was hit by falling volume and prices as well as the lower dollar. Salzgitter was also hurt by the weakening of trade with Comecon countries, which account for more than one-third of its exports.

However, in the medium term, Salzgitter is well placed, geographically and industrially, to benefit from the expected expansion in West German trade with the Eastern Bloc. The company is currently negotiating its first joint venture with the Soviet Union.

Salzgitter remains a candidate for privatisation although probably not for another year or two – by which time it should have reduced its dependence on steel and shipbuilding to less than 50 per cent of turnover.

Oil and gas and the recent move into information technology between them were responsible for a loss of DM13m, although information technology is expected to show a profit in the current year. Salzgitter is already the second largest German maker of non-standard telephone equipment.

HDW, the shipbuilding subsidiary which contributed heavily to Salzgitter's past difficulties, is now breaking even. It is also now Germany's biggest shipbuilding company and increased turnover by 9 per cent last year to DM940m.

However, Mr Ernst Pieper, the chief executive, warned that the problems in steel were not yet over and that further rationalisation was required. He also reported a fall-off in orders in the current year for railway waggons. Nonetheless, orders overall were 11 per cent up on last year.

Exports were up in 1986-87 to 36 per cent of turnover. Cash flow was down from DM800m to DM650m thanks to some extraordinary writedowns. Investment was also down slightly.

But Mr Pieper said the balance sheet was strong and, with more than DM1bn in cash, he was actively looking for a substantial acquisition to shift the emphasis of the group further away from its roots.

EUROCREDITS

Takeover finance returns to the centre stage

TAKEOVER FINANCE again dominated the international loans market last week. By their aggressive underwriting of a $2.3bn financing to support Pirelli in its hostile bid for Firestone, two Swiss banks – Swiss Bank Corporation and Crédit Suisse – gave notice that US banks are not going to have it all their own way in arranging acquisition finance.

Elsewhere, further evidence emerged that sovereign and quasi-sovereign borrowers are having to pay more to raise funds from international banks.

Isveimer, the Italian regional development agency, is raising Ecu100m in a seven-year revolving credit. The margin over London interbank offered rate is 15 basis points for the first five years and 18.75 after that, with a 5 basis point participation fee. Lead managers are Banque Indosuez, Istituto Bancario San Paolo di Torino and Dai-Ichi Kangyo Bank.

Its previous borrowing, for Ecu75m, carried a 10 basis point margin. Although that had a shorter maturity and a different structure, bankers reckon Isveimer is still paying more than it would have done six months ago.

The difference appears to be due to a new unwillingness among Japanese banks to take on low margin assets, possibly as they assess the impact of the current moves by central banks towards harmonising international bank capital standards.

Spanish borrowers may disappoint those bankers who had been expecting a financing bonanza this year, after last year when they were effectively barred from the market because of the troubles of Fecsa, the electric utility.

Sevillana, another Spanish electricity supplier, told bankers in London on Friday that it has no plans for foreign borrowing this year. Yet another, Iberduero, may decide to refinance about $100m, but is unlikely to do much more.

After the $200m credit to raise new finance for Fenosa was finally closed last week after a slow syndication, Hidrola is expected to be the only significant user among Spanish utilities of new foreign financing. Its new money needs are estimated at $400m from abroad this year.

Banks' ardour to cement relationships with corporate clients continues to result in competitive pricing for standby credits, such as the £150m multi-option facility being arranged by Warburg for Reuters, the London-based news and business information group.

It has a five-year maturity and carries an annual facility fee of 5 basis points. A margin of 10 basis points is payable if the committed part is drawn, and a utilisation fee of 2½ basis points if more than half used. Lead managers are being invited at the £25m level for a fee of six basis points.

County NatWest has arranged a five-year $150m note issuance facility for the Australian Gas Light Company, the sole supplier of natural gas to New South Wales. Banks will underwrite $100m.

It is also arranging a £75m, five-year multi-option facility for Rosehaugh, the UK property developer.

Terms on both transactions will be disclosed when syndication starts.

Orion Royal Bank is raising a $100m five-year term loan for Central Capital Corporation, the Canadian financial services group. It carries a 30 basis point margin for three years and a 37½ basis point margin after that.

Nederlandse Waterschapsbank, making use of recent liberalisation by the Dutch central bank, appointed two dealers for a Fl 250m programme of medium-term notes, with a minimum two-year maturity. They are Algemene Bank Nederland and SBCI.

Svenska Handelsbanken's London branch is to have a Y10bn Euro-certificate of deposit programme, arranged by Yamaichi International, with Daiwa Europe and Svenska itself also acting as dealers.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,048.3	241.0	462.1	6,469.5
Prev	6,794.2	0.0	135.0	7,826.2
Other	1,615.8	15.2	298.3	818.1
Prev	2,921.8	48.1	363.8	655.2
Secondary Market				
US$	20,056.5	2,263.5	5,565.9	4,819.1
Prev	26,013.8	2,016.0	5,944.4	6,913.1
Other	17,720.3	947.6	3,485.9	21,029.8
Prev	21,512.3	1,015.8	3,750.0	23,857.7

	Cedel	Euroclear	Total
US$	11,313.4	30,608.5	41,921.9
Prev	17,899.1	37,743.6	55,642.7
Other	19,289.9	26,641.0	45,930.9
Prev	25,273.4	28,851.3	54,124.7

Week to March 10, 1988 Source: AIBD

Navigation Mixte ahead

BY GEORGE GRAHAM IN PARIS

NAVIGATION MIXTE, the diversified French holding company, raised profits last year by 32 per cent to FFr590.9m ($105m), despite a halving of earnings at its Via Banque banking subsidiary and write-offs on its investment portfolio in the wake of the stock market crash.

The company announced a dividend of FFr18.50 a share plus a FFr9.25 tax credit, increasing its distribution by 8.8 per cent.

Via Banque, in which Navigation Mixte has a 50.5 per cent stake, saw operating profits stagnate, though total net profits fell to FFr123.8m from FFr262.3m.

Tenneco sheds 3,000 Case IH jobs

BY JAMES BUCHAN IN NEW YORK

TENNECO, the big Houston conglomerate which is suffering from a fall in its main energy and farm equipment markets, has announced it will cut 3,000 jobs at its Case IH subsidiary, which is the second largest US maker of tractors.

Tenneco, which has poured capital into its troubled farm equipment business despite raucous demands on Wall Street that it completely rethink its structure, said yesterday that it would lay off 10 per cent of its workforce at Case IH through the closure of one plant and the consolidation of operations.

Tenneco invested $475m in 1984 to buy the farm machinery operations of the sickly International Harvester group in a bid to make its Case subsidiary a power in the industry behind John Deere. But Case IH, which also makes light construction equipment, has been forced to slash tractor prices to clear inventory in the face of a continued depression in US agriculture.

Case IH lost $214m in 1985, broke even in 1986 and made losses of "significant magnitude" last year. Although demand has improved from its trough, the company said it had to make sales allowances to clear its old model inventory.

The 1987 farm equipment losses coincided with serious problems in its gas pipeline business from so-called take or pay contracts, which force pipeline operators to buy expensive gas which they sometimes cannot sell.

A special charge of $250m to settle these contracts helped plunge Tenneco to a loss for 1987 of $218m on revenues of $14.80bn.

Because of its unwieldy structure and depressed stock price, Tenneco has been repeatedly touted as a candidate for takeover or bust-up. But Mr James Ketelsen, chairman, has preferred to keep its conglomerate structure, selling off only peripheral insurance operations and land holdings.

●Mobil, the leading US energy group, intends to sell another $500m of assets this year in addition to last week's sale of the Montgomery Ward retail chain for $1.5bn.

Mr Tucker said Mobil was undecided how it would spend the funds from asset sales, but using some of the cash to reduce debt was a possibility.

Mr Richard Tucker, president, told securities analysts in San Francisco that the additional money would come from the sale of "dribs and drabs" in the company but would not elaborate.

Mobil sold Montgomery Ward to the Chicago-based retailer's management last week for about $3.8bn. The buyers will assume $2.3bn of Montgomery Ward debt.

The company has made a series of disposals in the past three years and generated $800m in 1987, $1.1bn the previous year and $1.9bn in 1985.

Expansion sweetens Suchard

JACOBS SUCHARD, the Swiss coffee, food and confectionery maker, has reported a sharp increase in 1987 profits and turnover, helped by a string of acquisitions including E.J. Brach of the US and Côte d'Or of Belgium, Reuter reports from Zurich.

Net profit rose by almost 39 per cent to a record SFr265m ($193.5m) on turnover up 17 per cent to SFr6.10bn.

The lion's share of the profit increase came from an improvement in gross margins to 46 per cent from 36, although acquisitions also played a part. The improvement in margins resulted from growth in the higher yielding confectionery business within the group, lower coffee and cocoa prices and the fall of the dollar.

Strict cost control and rationalisation measures, part of a long-running process which would continue in 1988, also played a part, the company said.

Profits reached 4.3 per cent of turnover in 1987, up from 3.6 per cent in 1986, while return on shareholders' funds climbed to 20.5 per cent from 13.6 per cent.

The dividend will be increased by 3.1 per cent to SFr165 per bearer share from SFr160. The dividend per registered share and participation certificate will be increased in line to SFr33 and SFr16.50 respectively.

Jacobs Suchard said it was optimistic for 1988, but gave no concrete predictions of sales or turnover.

Hernandez quits First Boston

MR MICHAEL HERNANDEZ, a managing director and head of the public finance department at First Boston, the Wall Street investment bank, has left the firm "to pursue other interests," Reuter reports from New York.

Mr Hernandez's departure follows last week's defection of Mr Laurence Fink, head of First Boston's mortgage finance department, to join Blackstone Group, the investment banking firm headed by Mr Peter Peterson, a former US Secretary of Commerce.

First Boston declined to say whether any other public finance executives had left along with Mr Hernandez. Mr Hernandez was not available for comment.

Mr Hernandez, along with several other public finance experts, came to First Boston in 1985 from Kidder, Peabody, the Wall Street firm which is now a subsidiary of General Electric. He is credited with having strengthened First Boston's public finance department.

Mr Carl Eifler, a managing director at the firm who was recently named co-head of First Boston's mortgage and asset finance groups, will replace Mr Hernandez, the firm said.

First Boston recently reported that it had lost between $10m and $50m before tax because of problems in its mortgage trading operations. The firm has said, however, that Mr Fink's departure had nothing to do with the losses.

Last month, Mr Bruce Wasserstein and Mr Joseph Perella, co-heads of First Boston's investment banking department, left to form their own investment banking firm. Several other First Boston employees have also left to join them.

●The Securities and Exchange Commission has censured PaineWebber, the New York securities firm, for violating the US securities laws by charging customers excessive markups and markdowns in transactions in stripped US Treasury bond coupons in 1984 and 1985.

In settling the SEC's allegations, brought in an in-house disciplinary proceeding, PaineWebber agreed to the censure and to review its existing stripped coupon markup and markdown practices to prevent a recurrence of its conduct.

PaineWebber, which will repay customers an unidentified amount, neither admitted nor denied the SEC allegations.

Repayments will represent the difference between the firm's purchase price of the coupons and its contemporaneous sale price for the coupons, minus 10 per cent of the sale price.

Hultquist heads Morgan Stanley UK

BY CLARE PEARSON

MORGAN STANLEY, the US investment bank, has announced that Mr Timothy Hultquist will take over in April as head of its London office following the resignation of Mr Archibald Cox last month.

Mr Hultquist, 37, is currently head of the firm's global foreign exchange business in New York and he will continue to hold this post in the UK as well as taking overall responsibility for the London office.

A managing director of the firm, he built up its substantial foreign exchange department almost from nothing after his move from First National Bank of Chicago in 1982.

Mr Parker Gilbert, Morgan Stanley's chairman, said foreign exchange business would remain centred in New York. Mr Hultquist's managerial qualities could benefit all areas of the London operation, he said.

Mr Cox's departure after 11 years in London prompted speculation that the autonomy of the London operation was being eroded by its parent in New York. Under his guidance, the London office had expanded to nearly 1,000 out of a total Morgan Stanley workforce of 6,500.

But Mr Gilbert said the firm had long been moving towards guiding the strategic direction of its international offices on a more integrated basis.

Mr Hultquist's arrival would not mean a change of strategy in London, where 10 managing directors maintain a high degree of day-to-day responsibility. Staffing levels were, in fact, expected to expand modestly in 1988.

US futures industry tries to forget past

By Deborah Hargreaves in Boca Raton

US FUTURES industry officials continued their morbid dissection of October's stock market crash last week amid the gingerbread-house setting of Florida's exclusive Boca Raton club.

Secure in their conviction that much of the blame for the stock market crash can be laid at the door of the New York Stock Exchange, US futures executives were putting a brave face on the drooping volumes of their own stock index products.

"The futures markets have responded responsibly to the crash," stressed Mr Leo Melamed, special counsel to the Chicago Mercantile Exchange, who kept up his trading position in Chicago throughout the convention with a portable telephone and price quote machine.

Mr Melamed charged that the US securities markets have yet to make any kind of reasonable reform effort in the wake of the crash. The New York Stock Exchange was not there to make its own case, having abruptly declined an invitation to attend the conference.

In an impassioned plea for US regulators not to regulate the futures industry out of business, Mr Melamed warned of the dangers of pushing trade into an ever-ready foreign market. "I've taken a step back from the process of reform that's before us and I look at it in awe and in fear," he groaned. "I suggest we stop blaming the market and let the private sector look at a correction."

In the rhetoric surrounding October's market plunge, US futures exchanges were urged to co-ordinate their own reforms with those in the securities industry.

At the same time, they recognise the need to co-operate with the stock exchanges in a process of information-sharing.

In an unspoken agreement to avoid referring to the crash as a crash, conference speakers doggedly spoke of October's "volatility" or market "break."

But while delegates' faces turned pinker under the Florida sunshine, there was no escaping the fact that the market "break" has taken its toll on an industry still trying to recover.

Long Island Lighting takes write-down

BY JANET BUSH IN NEW YORK

THE LONG Island Lighting Company (Lilco) is taking a $1.35bn write-down on its investments in three nuclear power stations.

The write-down, which will show up in first-quarter 1988 results, is mainly due to a ruling in 1985 by the New York Public Service Commission that Lilco had improperly spent $1.35bn on the Shoreham nuclear plant.

Lilco will take a $1.12bn write-down for the Shoreham plant, $199m for its share in the Nine Mile Point 2 plant in New York State and $23m for its Jamesport, Long Island, plant which it never started to build.

The company also reported a 14.8 per cent fall in 1987 profits to $259.9m or $1.73 a share from $316.7m or $2.13 in 1986. Revenues rose 6 per cent to $2.1bn.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Asahi Breweries§♦	300	1993	5	4⅜	100	Nomura Int.	4.375
Flash VI Ltd. (a)‡♦	33.2	1993	5	23bp	100.10	Sanwa Int.	-
Zenitaka Corp.†	50	1993	5	(4¾)	100	Nomura Int.	*
Bergen Bank♦	75	1990	2	8	100⅝	Merrill Lynch	7.651
CANADIAN DOLLARS							
First Austrian Bank♦	50	1991	3	9½	101¼	Deutsche Bk Cap.Mkts	9.006
AUSTRALIAN DOLLARS							
Girozentrale Vienna♦	50	1992	4	12¾	101¼	CSFB	12.172
Tasmanian Public Fin.♦	65	1995	7	13	101⅝	Deutsche Bk Cap.Mkts	12.637
ASLK-CGER Finance♦	50	1991	3	12¾	101⅞	Bankers Trust Int.	12.176
D-MARKS							
Cr.Ind.et Commercial♦	300	1998	10	6¼	100⅝	Morgan Stanley	6.164
EIB♦	400	1998	10	5¾	100	Deutsche Bank	5.750
NZI Overseas Finance♦	150	1995	7	6	101¼	UBS (Germany)	5.778
SWISS FRANCS							
Sumitomo Rubber**§♦	120	1993	-	1⅝	100	Credit Suisse	1.625
Teikoku Kako Co.**§♦	50	1993	-	¾	100	Credit Suisse	0.750
Mitsui Tst & Banking§♦	100	1993	-	¾	100	Credit Suisse	0.750
Mitsui Tst & Banking**§♦	100	1993	-	⅝	100	Credit Suisse	0.625
Takarabune Conf.**†♦	40	1993	-	1¾	100	Handelsbank N'West	1.750
Polly Peck Int.Fin.(b)♦	50	1993	-	5¾	100	Warburg Soditic	5.750
Sota Kogyo Co.**§	30	1993	-	(1)	(100)	Citicorp Inv. Bank	*
Oest. Kontrollbank♦	100	1994	-	4	100½	SBC	3.905
Oest. Kontrollbank♦	100	2003	-	4⅞	100¼	SBC	4.851
Norsk Hydro♦	200	2000	-	4¾	101¼	Credit Suisse	4.612
Ireland♦	200	2000	-	4⅞	100½	UBS	4.819
Belgium**♦	100	1993	-	4	101	Kredietbank (Suisse)	3.777
Belgium(d)**♦	100	1993/98	-	4	101¼	Shearson Lehman Bros	3.721
SBSA Finance Corp.**♦	100	1994	-	4¼	100¼	SBC	4.202
Union Bk of Norway**♦	76	1993	-	4¼	100⅞	Kredietbank (Suisse)	4.053
Montreal Urb.Comm.**♦	60	1998	-	4½	100⅜	Bqe Paribas (Suisse)	4.453
ENEL**♦	100	1995	-	4⅛	101	B.della Svizzera It.	3.959
STERLING							
Cie Bancaire♦	50	1993	5	9¾	101⅛	Baring Brothers	9.457
Ford Credit Funding♦	50	1993	5	9⅝	101½	UBS (Secs)	9.237
Barclays Bank Finance♦	250	1993	5	9½	100¾	BZW	9.306
Halifax Building Soc.♦	100	1993	5	10	101¾	Warburg Securities	9.544
Nat.& Provincial B.Soc.♦	75	1993	5	10	101⅜	CSFB	9.641
TMC M'gage Secs.6(e)‡♦	100	2015	4-6	32½bp	100	Salomon Brothers	-
ECUs							
Outokumpu Oy♦	50	1995	7	8	100⅞	New Japan Secs.	7.833
EIB♦	150	1996	8	7½	101⅜	UBS (Secs)	7.267
Pirelli Fin.Services♦	80	1991	3	7½	101⅛	Bankers Trust Int.	7.071
DANISH KRONER							
World Bank♦	500	1994	6	10	100¾	Den Danske Bank	9.829
Baceb Finance♦	250	1991	3	10	101⅞	Privatbanken	9.256
BELGIAN FRANCS							
EIB**♦	3bn	1996	8	7¾	100	Bqe Indosuez B'gique	7.750
LUXEMBOURG FRANCS							
Swedbank**♦	300	1993	5	7¼	100½	Bqe Paribas (Lux)	7.128
Renault Acceptance**♦	300	1993	5	7	100	Credit Lyonnais	7.000
EIB** (f)♦	300	1994	6	7	100¼	BIL	6.948
LIRE							
EIB♦	150bn	1993	5	11½	99	B.San Paolo di T'ino	11.776
YEN							
Banque Indosuez (c)♦	13bn	1993	5	7	101⅝	Daiwa Europe	6.608
Nat. Bank of Hungary♦	25bn	1998	10	5.7	99¾	Daiwa Secs.	5.815
Mass Transit R'way Corp♦	10bn	1995	7	5.2	100½	Nomura Secs.	5.180

*Not yet priced. **Private placement. ♦Final terms. ‡Floating rate note. †With equity warrants. §Convertible. (a) 23bp over 6m Libor. (b) SFr50m minimum. (c) Bull/bear issue – redemption linked to Japanese Govt. bond futures. (d) Step-up coupon: 4% first 5 years to yield 3.721, if issue not put 5% last 5 years. (e) 32½bp over 3m Libor first 10 years, 50bp remainder. (f) Fungible with recent issue. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

TAX REFORM

Austrian package causes concern

AUSTRIA'S NEW tax reform package, agreed a few days ago by the Socialist-led coalition Government, has caused considerable concern in the capital markets.

The package was designed to make the system more efficient, cut the number of exemptions and lower income tax.

The new tax rates on dividends, however, have created considerable uncertainty in the securities market. Under the new scheme the *Quellensteuer*, or withholding tax, on dividends will be increased by 5 per cent to 25 per cent.

This appears to contradict the Government's policy of trying to expand the securities market, principally through the partial sell-off of state-owned companies. Since only between 1.5 and 2 per cent of the Austrian population of 7.5m own shares, Finance Ministry officials agree that raising the tax might add to the small investor's naturally cautious view towards equities.

Other aspects of the new scheme for corporate taxation could also adversely affect the expansion of the securities market. Under the old system, profits were taxed at 55 per cent if retained within the company, and at 27.5 per cent if paid out in dividends. Under the new scheme, both will now be uniformly taxed at 30 per cent.

"The new corporation tax is very good for companies which retain their reserves within the company," says one banker, "but it also means that companies will pay out less in dividends."

Under the old system, if one company held a minimum of 25 per cent in another, the second company could pay dividends to the first company taxed at 27.5 per cent — half the standard rate of 55 per cent.

The new tax measures change this picture considerably. Whether or not the second company retains its profits, the tax rate charged will be 30 per cent.

Bankers argue that one consequence will be to make dividend yields on the Vienna stock exchange lower. "Under the old system, some companies were paying out 100 per cent ratios in one year. I think this will now be reduced to around 30 or 40 per cent," said one.

Financial analysts also argue that an opportunity to expand the corporate capital base was lost when the Government decided not to reform the system under which companies can obtain credit very cheaply. Austrian companies have in the past been able borrow at several percentage points below the prime rate, with the Government subsidising the difference.

Judy Dempsey

US MONEY AND CREDIT

Oil and the dollar haunt bonds

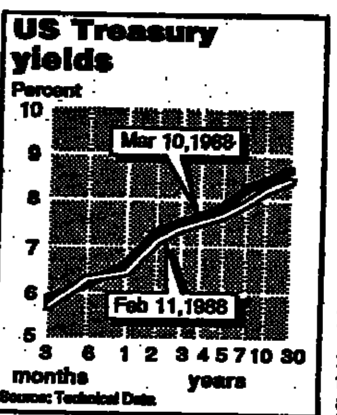
TWO OLD chestnuts came back to haunt the US Treasury bond market last week — oil prices and the dollar.

Some moderately encouraging figures on Friday, showing subdued producer price inflation and sluggish retail sales, buoyed prices at the end of the week, taking the yield on the Treasury's benchmark 8.875 per cent long bond back to around 8.5 per cent, compared with more than 8.55 per cent earlier in the week.

However, given the fact that prices had been consistently weak since the previous Friday's news of an unexpected jump in employment, the extent of the rebound on Friday was not impressive and seemed mostly to consist of short-covering.

The producer prices and retail sales figures added little to what the market already knew: that producer price inflation remains subdued and retail sales have not been weak enough to kindle hopes of a genuinely weak economy and lower interest rates. The Federal Reserve has, in any case, made it clear that no easing is in prospect in the short term.

One of the underpinnings to a more relaxed attitude towards inflation recently has been the softness of oil prices. There is a substantial supply overhang from last year and both Organisation of Petroleum Exporting Countries and non-Opec producers have been overproducing. Crude oil prices had fallen to 18-month lows but rebounded above $15 a barrel on Friday.



Much the more fascinating development last week was the rebirth of the foreign exchange market, which has hardly functioned as a free market since central banks of the Group of Seven countries started their current policy of aggressive intervention at the beginning of the year.

Last week, however, foreign exchange dealers caught a whiff of action once again. With no warning (it has been suggested that not only did Mr James Baker, US Treasury Secretary, not know that British exchange rate policy was being shifted but nor did the most senior Treasury officials), sterling was suddenly allowed to rise above DM3.00.

A 7 pfennig movement in the sterling exchange rate may not look very significant if the Bank of England steps in this week to stop its rise, yet it is dramatic by comparison with the 5 pfennig range of the past few months.

It is the effect on broader perceptions in currency markets which could prove a key factor in the bond market in coming weeks. The dollar has been off the agenda since Christmas: now it is back on. Not for months has anybody heard a top official talk about allowing market forces — or foreign exchange dealers — to hold sway; yet that is exactly what Mrs Margaret Thatcher told Parliament last week.

What started as specific weakness against the pound had by the end of the week spread to an air of general dollar vulnerability, which contributed to the depressed state of bond prices. The pound's sudden rise revived broader concerns about currency stability.

More generally, markets were unnerved by the suggestion that all may not be sweetness and light within the G7. Relations between the US and Britain had already been strained last year when Mr Nigel Lawson, the Chancellor of the Exchequer, had exhorted the US to raise its discount rate. One currency economist in New York commented after last week's events: "Lawson will have to wear a steel helmet next time he visits Washington."

Neither the situation with commodity prices nor currencies has developed to a point where the bond market should worry unduly. However, given deep uncertainties about the direction of the US economy, particularly this week when the latest US trade figures are released and are generally expected to show a slight widening of the deficit, any added concern is unwelcome.

* * *

THIS WEEK sees the release of a series of key economic indicators. Here they are, with consensus forecasts compiled by Money Market Services of Redwood, California:

● Business inventories in January (Monday) are expected to have risen by between 0.5 per cent and 0.8 per cent.

● Industrial production in February (Wednesday) is expected to have been sluggish. The median forecast is for a rise of 0.1 per cent with estimates ranging from a fall of 0.2 per cent to a rise of 0.5 per cent.

● Housing starts for February (Wednesday) are seen totalling 1.45m units compared with 1.38m in January.

● Capacity utilisation (Thursday) is forecast at 82.1 per cent in February, slightly down on 82.2 per cent in January.

● Merchandise trade deficit for January (Thursday) is expected to have shown a modest deterioration since December. The median forecast is for a deficit of $13.2bn with forecasts ranging from a shortfall of $11.4bn to $14.5bn.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.54	6.46	6.27	7.78	6.08
Three-month Treasury bills	5.73	5.72	5.75	7.17	5.03
Six-month Treasury bills	5.84	5.97	6.02	7.65	5.41
Three-month prime CDs	6.63	6.59	6.60	8.28	6.14
30-day Commercial Paper	6.55	6.55	6.45	7.62	6.18
90-day Commercial Paper	6.60	6.67	6.58	8.05	6.13

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	102⅞	−⅛	8.08	8.03	8.85
20-year Treasury	107¼	−¼	8.58	8.56	8.53
30-year Treasury	104	−¼	8.51	8.48	8.44
New 10-year "A" Financial	NA	NA	9.30	9.45	9.25
New "AA" Long utility	NA	NA	9.60	9.75	9.57
New "AA" Long industrial	NA	NA	9.55	9.65	9.30

Source: Salomon Bros (estimates).

Money supply: In the week ended February 29 M1 fell $7bn to $755.1bn.

NRI TOKYO BOND INDEX

December 1983 = 100	10/3/88	Average yield (%)	Last week	12 wks ago	26 wks ago
	Performance index				
Overall	142.97	4.37	142.76	140.13	134.46
Government Bonds	143.85	4.00	143.58	140.78	134.70
Municipal Bonds	144.43	4.77	144.33	141.56	133.86
Govt.-guaranteed Bonds	145.81	4.77	145.78	142.78	134.65
Bank Debentures	136.92	4.23	136.89	134.93	132.25
Corporate Bonds	142.28	5.32	142.12	139.58	135.87
Yen-denom. Foreign Bonds	142.61	6.44	142.42	140.17	138.34
Government 10-year†	—	4.89	4.88	5.16	6.23

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Change in policy overshadows Budget

THE GILT-EDGED securities market was last week presented with more to digest than is usual so soon before the Budget. Tomorrow's event was overshadowed by the Government's change in policy on the exchange rate.

The change has highlighted inflation as Mrs Thatcher's prime concern. The Prime Minister appeared to rule out any early cut in interest rates and emphasised the direct link between the exchange rate and fighting the good fight on inflation.

In so doing she pulled the rug out from under the Treasury, which is believed to have wanted to see a lowering of interest rates in the wake of the Budget. It now seems as though sterling will have to strengthen further before one can be justified.

Mrs Thatcher also appeared to downgrade the problems the UK faces on trade. January's trade figures were a "freak", she said. Friday's revision to the 1987 balance of payments figures — a current account deficit of £1.6bn, nearly £1bn below the Chancellor's estimate of £2.5bn which Mrs Thatcher lauded on Tuesday — also seems to afford *prima facie* evidence that perhaps the market should be slightly more relaxed about trade than many analysts have been prepared to concede.

All of this, however, was not enough to shift the gilts market from the trading range it has been locked into for more than two weeks. Yields on longer-dated securities find great resistance in breaking through 9.20 per cent and are not comfortable at levels above 9.30 per cent.

Part of the reason for the market's inability to break through either end of the trading range convincingly is the proximity of tomorrow's Budget. Last week's moves on sterling, however, also had a role to play.

When the Prime Minister, the Chancellor and the Bank of England governor sat down on Friday a week ago, the Bank had already bought about £1bn in foreign currency that day to keep sterling below DM3. Given that this had happened in a week when bad trade figures were released and when the oil price was falling, the prospect of another week — or more — of such intervention was not on.

It would not have solved anything. The sterling created for intervention would have expanded the monetary aggregates, while subsequent sterilisation would have applied upward pressure on interest rates and therefore continued to underpin demand for the pound. A cut in interest rates, a way to square this circle, would have sent a wrong signal and conflicted with domestic monetary priorities.

Further intervention could also have resulted in the need to sterilise through gilt sales what in reality were short-term speculative funds. Although not uppermost in the authorities' mind, it could also have ruined about the only good thing the gilts market has currently going for it: the bullish technical outlook.

Which brings us to tomorrow's Budget. One thing the market would like is a clear statement from the Chancellor on UK monetary policy.

With his last credible monetary indicator no longer operative, large doubts persist: does the Government have a view on the exchange rate, or does the market rule? The market will be looking for clear guidance on the Government's monetary intentions, not a continuation of what Mr Stephen Hannah of County NatWest describes as the clandestine and discretionary operation of policy to date.

Mr Lawson's credibility as an economic manager is still high. Tax cuts of around £3¼bn will be judged appropriate if coupled with a public sector borrowing requirement projection of a balance to a surplus. The market likes a PSBR target that looks conservative, so that too big a PSBR surplus forecast — more than, say, £2.5bn — could be questioned.

Mr John Shepperd of Warburg Securities and Mr Richard Jeffrey of Hoare Govett say the "health service factor" could determine the size of the PSBR forecast — that is, for a balanced to small surplus outcome. Such a forecast would lead many to suspect the Chancellor was hiding revenue in a cautious taxation forecast and to discount it gladly.

There is, however, a widely held feeling that the Budget is already "in the market". The Chancellor's forecasts on inflation, the current account deficit and growth will therefore be scrutinised closely for indications of Treasury thinking and what they imply for the future course of the economy and policy.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]					
S.N.C.F. 7¼ 94	275	93½	−⅛	8.75	
SASKATCHEWAN 7 91	225	97¼	−¼	8.52	
SASKATCHEWAN 8½ 91	150	101	0	8.10	
SASKATCHEWAN 11⅞ 89	100	105¼	−⅛	8.22	
B.F.C.E. 5¼ 96	20.0BN	102¼	0	5.39	
CANADIAN PACIFIC 6¼ 96	10.0BN	107⅞	0	5.53	
DENMARK 6¼ 92	20.0BN	107	0	4.71	
DOW CHEMICAL 7 94	50.0BN	103⅞	+⅛	6.33	
ROYAL BK CANADA 28/01/90					
WESTPAC BANKING 12¼ 92 31/01/90		106	−5¼	9.46	

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MARCH 11

Rejected BAT will keep up pursuit of Farmers

BY NIKKI TAIT

BAT Industries, the British tobacco-based multinational, said at the weekend it was disappointed its $4.5bn offer for Los Angeles-based Farmers Group had been rejected by the American company's board, but added that it would continue with the offer and "vigorously pursue" the necessary regulatory approvals.

However, it welcomed a decision by the Nevada Federal District Court on Friday, requiring Farmers to include a motion from the UK group – due to be put forward at the annual stockholders meeting in May – in proxy cards for the AGM. The court has also ordered Farmers to make its stockholder list available to the British group. The BAT motion requests the Farmers board to enter good faith negotiations with the British predator.

Farmers' formal opposition to the offer was announced on Thursday. The board said it unanimously rejected the $63 a share terms, which it described as "inadequate". It added that various alternative options – including the feasibility of a leveraged buy-out – were being explored.

Late on Friday, following the court decision, Farmers' chairman, Mr Leo Denlea, repeated the US company's belief that stockholders should "receive the full values inherent in the company." In a prepared statement, he added: "It makes no sense to negotiate a transaction on the basis of an inadequate price."

"We are exploring a variety of ways to project and enhance the value of our stockholders' investment while allowing the company to continue to operate as an independent entity."

Newman Tonks concedes defeat

BY NIKKI TAIT

Newman Tonks, the Midlands-based door controls and building supplies group, yesterday conceded defeat in its £77.2m bid for door manufacturer, Henderson Group.

By the final closing date – Sunday lunchtime – Newman had received acceptances from holders of 692,016 shares. In addition, Newman and advisers BZW, owned a 2.3 per cent stake – giving the Midlands company control of 5.4 per cent in total. The offer has lapsed, therefore.

Newman's chances of success looked extremely slim when rival bidder Hepworth Ceramic raised its cash offer to 375p a share and secured a board recommendation over a fortnight ago.

Hepworth, which posted its offer document at the end of last week, already owns or has irrevocable/indicated acceptances in respect of 47.8 per cent of Henderson, and is now expected to cruise home. At Friday's closing levels, the Newman Tonks offer – largely in paper – was worth only 348p a share, compared with Hepworth's 375p in cash.

Consortium lifts OIS stake

BY NIKKI TAIT

THE CONSORTIUM led by oilman Mr Paul Bristol, which is bidding for Oilfield Inspection Services, announced yesterday that it has acquired a further 1.31m shares, or an 18.4 per cent interest, in its target. Together with shares already owned, this takes its total holding to 45.93 per cent.

On top of that, the consortium – which also includes Sheikh Amin Al-Dahlawi of Jeddah – says holders of 3 per cent of the shares have assented to the offer. This would give it a total interest of 48.92 per cent. The offer is now being made under Rule 9 of the Takeover Code.

The bulk of the shares acquired late on Friday came from Oates & Yates, a Manchester property business, which had previously stated its intention to accept. The consortium's advisers, Hincorp Earl, said yesterday that the shares were bought at the cash offer price – 83p a share.

The offer, which has been declared final and is opposed by the OIS board, values the company at around £4.6m.

COMPANY NEWS IN BRIEF

AARONSON BROS has agreed the sale of the business and certain assets of three subsidiaries to Prime Aaronson, a new company whose board includes members of the main company. Total consideration will be around £1m. The deal needs approval of shareholders.

ALLIANCE TRUST is paying a final dividend of 19.5p, on April 22, making 27.5p for the year ended January 31 1988 (25p). Gross revenue rose to £21.7m (£20.5m) and earnings were 27.85p (25.79p) per share. At January 31 net asset value came to 1,020.8p (1,135.5p).

GENERAL ACCIDENT is buying Dee and Atkinson, estate agent with 12 offices in Yorkshire and net assets of some £90,000. Part of the undisclosed consideration will be met by the issue of 110,182 shares.

MOSAIC INVESTMENTS said in respect of the rights issue acceptances received for 789,393 shares (98.7 per cent). Remainder sold in market at average 104.8p net per share.

REED INTERNATIONAL is proposing to redeem the outstanding debenture stocks in order to remove the borrowing and other restrictions attached thereto and facilitate greater flexibility in meeting group requirements. The 7½ per cent 1990-95 will be repaid at £99 per cent, with accrued interest; and the 6 per cent and 7 per cent 1983-88 and the 7 per cent and 7½ per cent 1987-92 will be repaid at par. Gisborne Life Assurance owns 86 per cent of the 7¼ per cent 1990-95 and has agreed to the proposal.

UniChem bid battle continues to bubble

By Nikki Tait

The bid battle between Macarthy, a quoted healthcare company, and its target, pharmaceutical wholesaler UniChem, continued to bubble yesterday as the predator pointed to an independent broker's circular valuing UniChem at £64.2m – roughly equivalent to the price Macarthy is offering.

By contrast, UniChem's advisers, stockbrokers Phillips & Drew, have already suggested an updated valuation of around £100m in the latest defence document. This, they argue, does not even take account of any bid premium – "which would typically add another 30 per cent to the price."

The tussle started last month when UniChem, a friendly society owned by 4,200 of Britain's 9,500 independent retail chemists, announced plans to come to the stock market as a plc in 1990. In the meantime, chemists would be offered shares in UniChem at heavily discounted prices. Macarthy, a rival, countered with a bid approach currently worth just over £64m.

The circular alighted on by Macarthy comes from Robert Fleming. Its analysts argue that "if UniChem was trading as a plc, we believe its prospects would be mundane." On the basis, then, of 6 per cent annual sales growth and 7.5 per cent profits rise, they predict that the shares would trade at a discount to Macarthy and the other rival, AAH.

Using a 9 times prospective multiple on initial profit estimates (ignoring any share scheme benefit), Fleming produces a market valuation of £56.7m. The broker then includes some benefit from the additional business picked up since the announcement of the float – which, it estimates, might add £7.5m to the market price-tag.

Yesterday, UniChem's chief executive, Mr Peter Dodd, said he had not seen the circular and could not comment in detail. However, he pointed to the £12m profit forecast for the current year in the light of the share scheme, adding: "The fact is that we make bigger and better profits than Macarthy."

David Waller on the impending THF bid for Kennedy Brookes

Catering for up-market image

ONE OF the more stinging insults hurled at Trusthouse Forte during its protracted bid for the Savoy was that it was "a vast combine ...which among other things runs service stations on the main arterial roads and airport catering."

The criticism must have hit home: the proposed acquisition of Kennedy Brookes – *details of* which are likely to be announced this morning after a weekend of negotiations between the two parties – is a very definite move "up-market" for the catering side of the world's largest hotel group.

Not that Brookes' Wheelers fish restaurants or its Mario and Franco pasta chain are quite in the same culinary league as the Savoy Grill or Simpsons in the Strand – but they undoubtedly outclass THF's Kentucky Fried Chicken outlets and its chains of Happy Eaters and Little Chefs.

Brookes has enjoyed rapid, even spectacular, growth since joining the USM in 1981. Pre-tax profits could amount to £15.5m in the current year – against a mere £572,000 in 1982. Market capitalisation has climbed from under £3m at the time of the flotation to some £170m at close of business on Friday.

Not unexpectedly, the catalyst *to this growth has been acquisition*. At first, chairman Mr Michael Golder – a former Eurobond dealer – concentrated on buying restaurant chains.

The first of these was the Mario and Franco pasta chain bought from Dalgety in November 1981 for £1m – followed in May 1982 with the £1.15m purchase of a clutch of notable restaurants including L'Opera in Covent Garden and Lockets, a watering-hole much favoured by politicians. In 1983 came the £8m acquisition of the Wheeler's fish restaurants.

Last year heralded a change of strategy: Mr Golder started buying hotels. In June, Brookes spent £35m on the 11 strong chain of Heritage hotels, followed in August by the £19.5m purchase of the Onslow Court Hotel in Kensington. Within a fortnight of last October's stock-market crash, Brookes made its most ambitious move to date with the acquisition of the Londonderry Hotel in Park Lane and the 107-room Howard Hotel on East 55th Street in Manhattan – for a total of £64m.

At the beginning of the year, Brookes had but 255 hotel rooms – by the end, it had 1,800. Hotels are likely to account for upwards of 70 per cent of this year's profits, as opposed to a third of the £8m pre-tax profits generated in the year to October 1987.

If last year's spate of acquisitions succeeded in changing the *fundamental nature of the group*, they also left it more vulnerable than at any other stage during its stock-market career. Brokers think that net debt stands at around £90m, approximately equal to shareholders' funds. Furthermore, in the rush to expand the group incurred the disaffection of City institutions by buying the Onslow Court without previously seeking the formal approval of its shareholders.

For THF, the union makes eminent commercial logic. In one fell swoop it will acquire two restaurants chains as demonstrably *salubrious as its Cafe Royal in* Regent Street, or the dining rooms in its luxury hotels. It will be able to apply some of the Brookes formulae to its own in-hotel catering.

On the hotel side, occupancy levels should rise by up to 5 per cent as soon as Brookes hotels are incorporated into THF's central reservation system. Purchasing costs are likely to be reduced dramatically.

The four-star Howard will expand THF's presence in New York, where it owns the de luxe Plaza Athenee. Of Brookes' provincial UK hotels, THF is likely to retain distinctive properties such as Ghyll Manor in Sussex and the Bear in Woodstock, although other hotels in the former Heritage chain may be sold in time to other operators.

The likelihood of some disposals is high. Given Brookes high level of indebtedness, THF will effectively be paying £90m more than the £172m represented by the likely consideration of 400p a share. That works out at a prospective multiple of over 22 assuming the company makes £15.5m in the current year. Without disposals, earnings dilution will be inevitable.

Although it is understood that THF has the support of shareholders with some 20 per cent of the equity, the appearance of another bidder cannot be ruled out despite the assurances of the board that they will not seek a white night. However, potential *bidders such as Mecca or* Brent Walker are absorbing recent acquisitions of their own and may be deterred by Brookes debt.

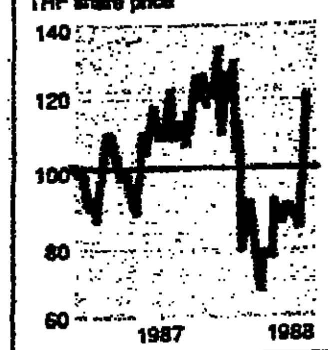
Meanwhile, THF is not likely to forsake its ambitions for an even more up-market image. The courtroom battle for a crucial bloc of shares in the Savoy will be resumed in May.

THE GROUPS COMPARED

TRUSTHOUSE FORTE
Hotels: 21,000 rooms, including Grosvenor House (London), Plaza Athenée (New York), George V (Paris), Ritz (Madrid), Post House, Anchor chains (UK)
Catering: Café Royal, Little Chef, Happy Eater, 50% Kentucky Fried Chicken (all UK)
Turnover: £1.78bn
Profit: £180m pre-tax; 68% from hotels at trading level

KENNEDY BROOKES
Hotels: 1,800 rooms, including Londonderry and Onslow Court (London), Howard (New York), Heritage chain (UK)
Catering: Mario & Franco, Wheeler's, Maxim's, Café des Amis, Bertorelli
Turnover: £61.55m
Profit: £10.4m pre-tax; 35% from hotels at trading level
financial results year to October 1987

Kennedy Brookes
Share price relative to THF share price



Hanson and UB silent on Ross Young deal

Both Hanson, the British conglomerate, and food group United Biscuits yesterday declined to comment on increasing speculation that a deal over the Ross Young frozen foods business is imminent.

Ross Young was acquired by Hanson through its successful takeover of the Imperial Group in 1986 – a two-cornered battle with United Biscuits the rival suitor. Gossip that United Biscuits was negotiating to purchase the business started to circulate some months ago.

With UB's results due on Wednesday, the rumours have been heightened, and figures around the £330m mark have been suggested as a possible purchase price.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
* AB Ports	Apr 7	Final 4.0	* Jaguar	Mar 16	Final 6.2
Abbey Life	Apr 1	Final 5.5	Laird Group	Apr 2	Final 4.1
Amec	Apr 1	Final 7.5	Laporte	Apr 15	Final 6.45
BAT Inds	Mar 25	Final 8.8	LASMO	Mar 31	Final 7.0
* BSG Intl	Mar 29	Final 0.89	* Marley	Mar 22	Final 2.7
* BTR	Mar 17	Final 4.754	Mowlem (J.)	Apr 13	Final 11.5
* Barratt Devs	Mar 23	Interim 2.54	NEI	Mar 25	Final 3.6
Blue Circle	Apr 13	Final 17.0	Ocean Trans	Mar 25	Final 6.1
Booker	Mar 23	Final 9.0	* P & O	Mar 22	Final 11.5
Bowater	Apr 8	Final 6.0	* Pentland Ind	Mar 14	Final 1.015
Brit Aero	Mar 24	Final 11.0	* Prudential	Mar 22	Final 19.0
* Brixton Est	Apr 21	Final 3.9	Reckitt Col	Apr 21	Final 11.75
Bunzl	Mar 31	Final 2.45	RMC	Apr 14	Final 12.5
Burmah Oil	Apr 9	Final 9.5	RTZ	Apr 8	Final 16.5
* Cookson	Mar 24	Final 6.0	* Rowntree	Mar 17	Final 9.2
* DRG	Mar 16	Final 5.7	* Slough Ests	Mar 28	Final 4.0
Evered	Apr 16	Final 3.25	Smith & Neph	Mar 25	Final 1.97
GRE	Apr 1	Final 24.0	Smiths Inds	Apr 15	Interim 2.0
* Glaxo	Mar 14	Interim 5.0	* Steetley	Mar 25	Final 10.0
* Glynwed	Mar 14	Final 8.5	* Sun Alliance	Apr 6	Final 16.0
* Guinness	Mar 24	Final 2.1	Taylor Wood	Apr 14	Final 7.25
Hall (M.)	Apr 8	Final 3.5	* Utd Biscuits	Mar 30	Final 6.0
Hammerson	Apr 9	Final 8.5	* Utd Newspps	Mar 17	Final 10.5
Hawker Sid	Apr 15	Final 12.0	Ward White	Apr 14	Final 5.25
* Hepworth Cer	Mar 23	Final 5.18	* Wimpey (G.)	Mar 29	Final 3.75
* Ibstock John	Apr 7	Final 4.3	* Woolworth	Mar 23	Final 11.0

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition: Aukett Associates (Section: Buildings), Hatfield Estates (Buildings), In Shops (Drapery & Stores), Verson International (Engineering), Waverley Mining Finance (Mines-Finance).

KIO keeps options open

The Kuwait Investment Office yesterday opened up the possibility that a self-imposed 22.5 per cent limit on its British Petroleum stake would not necessarily be binding in the future.

The KIO's *deputy chairman*, Mr Fauad Jaffar, conceded in a television interview that the limit might be revised at a later date. "If the situation changes, obviously a prudent investor must have an open mind," he said. "One cannot make judgements on the future on unknown matters."

The Kuwaitis raised their holding in the UK oil group to 21.28 per cent on Friday, but suggested that they would be happy not to exceed 22.5 per cent and had no immediate plans to seek boardroom representation. Under Takeover Panel rules, the KIO is free to go to 29.9 per cent without triggering a full bid.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Armstrong Equipment, Brierley Inv, Glaxo, Harmony Gold Mining, Industrial Finance and Investment Corporation, MAI, [illegible]

Finals- Allda, Appleyard, British Vita, [illegible]

FUTURE DATES

Cooper (Frederick)	Mar 28
EFM Dragon Trust	Mar 28
Henderson Murray & Elder	Mar 29
Abbey Life	Apr 6
Barker & Dobson	Mar 22
Bellwinch	Mar 29
Blackwood Hodge	Apr 6
Brixton Properties	Mar 21
Christies Intl	Mar 29
Descutter Brothers	Mar 24
Dowfax	Mar 17
Gaskell Broadloom	Mar 25
Lloyds	Mar 21
Richardsons Westgarth	Mar 17
Stag Furniture	Mar 28
Stewart (A.G.)	Mar 30
Tibbett and Britten	Mar 23
Wilson (Connolly)	Apr 6

FINANCIAL TIMES STOCK INDICES

	Mar. 11	Mar. 10	Mar. 9	Mar. 8	Mar. 7	Mar. 4	1987/88 High	1987/88 Low	Since Compilation High	Since Compilation Low
Government Secs.	90.47	90.53	90.68	90.53	90.59	90.24	93.32	83.73	127.4	49.18
Fixed Interest	97.28	97.12	97.11	97.15	96.80	96.72	99.12	90.23	105.4	50.53
Ordinary	1449.9	1472.3	1460.1	1457.7	1462.8	1478.7	1926.2	1232.0	1926.2	49.4
Gold Mines	248.6	249.7	248.0	242.2	242.5	239.7	497.5	234.0	734.7	43.5
FT-Act All Share	930.11	940.18	932.21	931.17	932.91	939.34	1238.57	784.81	1238.57	61.92
FT-SE 100	1813.6	1834.6	1818.2	1834.5	1813.3	1834.5	2443.4	1565.2	2443.4	986.9

MANAGEMENT

Hospital Corporation of America

Just what the doctor ordered

James Buchan on the radical surgery that saved the US group after its lifeblood was cut off

TOM FRIST thinks he has got it right at last with North America's largest hospital company.

After five years of scrabbling for patients, vain diversification and fighting off takeover, Tommy Frist found a solution for Hospital Corporation of America straight out of his medical training. "It was time for radical surgery," he says. Frist, who once talked of turning Hospital Corporation into a $25bn company selling everything from retorts to health insurance, says: "Size is no asset in this industry."

Showing a ruthlessness that belies his soft voice and sweet-Southern manners, Frist, 48, last year sold off 104 of his less profitable hospitals, cut $52m and 300 people out of his corporate overhead, abolished a costly divisional management system and reduced the capital employed in the business by paying back debt and buying in stock.

Frist's surgery at Hospital Corporation is the most sweeping answer yet to the turmoil in US health care caused by cuts in Federal government and private spending. Since 1983, when Congress led an attack on spiralling medical costs by abolishing cost-plus treatment in its Medicare programme for elderly people, an expensive, high-quality industry has been turned upside down by competition for patients.

Hospitals, which consume 40 per cent of medical spending, have been hardest hit and dozens of them, public and private, have gone bust or closed.

Other hospital management companies, such as Humana, have been bewildered by the changes. But it is Hospital Corporation, the market leader, which Wall Street and the medical profession are watching.

At stake is not much less than the future of for-profit health care in the US. If Hospital Corporation can prosper without rocketing health inflation, the argument goes, then American medicine is safe in the hands of American capital. If not, US physicians must prepare to meet their bugbears: a national insurance system or, horror of horrors, socialised medicine on the British pattern.

Frist knows he has his work cut out. Hospital Corporation's stock, at $29, is only a fraction above the break-up value of its hospitals. The risk of takeover is still there.

Hospital Corporation, like the UK's National Health Service, is the product of an era of national optimism. Frist first had his idea at college in the late 1950s, when he was friendly with the son of Kemmons Wilson, who transformed the way Americans spend their nights on the road by founding Holiday Inns. "It made me think about hospitals," Frist says. "Why should there be 7,000 independent hospital companies, like a cottage industry?"

Frist's opportunity came in 1965 when the then President, Lyndon Johnson, architect of the Great Society, signed the Medicare bill providing free medical treatment to people over 65. "Because Medicare was a cost-plus payment system, it created a tremendous pent-up demand: for more hospitals, higher technology, more infrastructure," he says.

Tom Frist: "It was better even than defence contracting"

Hospital Corporation, which Frist founded with his father in 1968, had two advantages in exploiting the new market.

From its base in Nashville, Tennessee, where Tom Frist, Sr, was a well known physician, Hospital Corporation could fan out into a New South swelled with refugees from the rust belt and a black public newly aware of its rights and opportunities.

Hospital Corporation also had capital. Its third founder, the Southern company promoter Jack Massey, took Hospital Corporation to the stock market as he had Kentucky Fried Chicken before it. "Hospitals, fast food, it was all the same to him," Frist says. The company could build hospitals and it could buy hospitals from strapped local authorities.

The company's growth was spectacular. Profits rose 35 per cent every year. In 1968, profits were just $2.8m on revenues of $68.9m. In 1983, Hospital Corporation earned profits of $243.2m on revenues of $4.08bn.

The group was operating 391 hospitals in the US, as many as the Federal Government. A valuable contract to manage the royal hospital in Riyadh, Saudi Arabia, provided a welter of cash. Rather than repatriate the money and pay US tax, Hospital Corporation bought hospitals in the UK, Latin America and Australia. The company was also managing hospitals for charitable organisations and religious orders.

Hospital Corporation had every sort of corporate plaything, from a television station to a $2m-a-year Washington office to a vast data-processing centre – "like an airline reservation system" – that would provide the arteries of the integrated "supermed" which was going to dominate US health care.

The company bought into medical supply, nursing homes and psychiatric care and was deeply in debt. But what did that matter in a cost-plus environment? "It was better even than defence contracting," Frist says now. The sky was the limit, until the sky fell in.

In 1983, Congress replaced the cost-plus Medicare payment system with what amounted to fixed prices. The Federal Government would pay only so much for a broken ankle or a coronary by-pass and if the patient suffered complications, then the hospital had to shoulder the excess along with its bad debts and charity cases.

Hospital Corporation's wards emptied as corporations and private insurers fought to cut their costs by prodding people towards out-patient treatment. The company's average occupancy tumbled from the high-70s per cent to below 50 per cent, and revenues, profits and stock prices followed.

Frist lost many illusions. The diversifications into nursing homes and medical supply were sold. An unsuccessful excursion into insurance, which was designed to capture patients for the hospitals but merely alienated bigger insurers, will also be sold, Frist says.

For the moment, the company retains a $250m passive interest in the business, which is known as Equicor and is run by Equitable Life.

Only the psychiatric hospitals, which cost 40 per cent less than general hospitals to build and provide better returns, have been a success.

"As industry leader, we had the time to go through a period of trial and error," Frist says now. "We were careful not to bet the store. By 1987, it became clear to me who the winners and the losers would be."

The biggest loser was the idea of the "supermed", the one-stop medical shop serving corporations, insurers and Washington on a national basis. "We saw that health care would always be a local-market product, with the decisions made by a patient and physician, not by some large insurer 1,000 miles away. Our size was not an advantage in a local market. Frequently, it was slowing down our decision-making," he says.

The next was the company's cost base. According to Frist, there are limits to how far you can cut costs. "You get to a point where the consumer becomes dissatisfied, especially if you are cutting loss-leaders like research. I cut back some expenses at the corporate level in 1986, but it was just a few millions of dollars. There were so many people in senior management who had established pet projects, like the Washington office."

Meanwhile, the arbitrageurs began to sniff takeover action.

In February of last year, Frist decided on surgery. The strategy, which he devised along with Roger Mick, his finance man, is ruthless and elegant. By September, the 104 smaller hospitals were packaged up and sold to their employees led by Clayton McWhorter, Hospital Corporation's former president.

Hospital Corporation received $1.64bn in cash with which to shrink its capital employed by cutting $900m in debt and buying in 15 per cent of its stock. It also took $460m in preferred stock and warrants of the new company, known as HealthTrust.

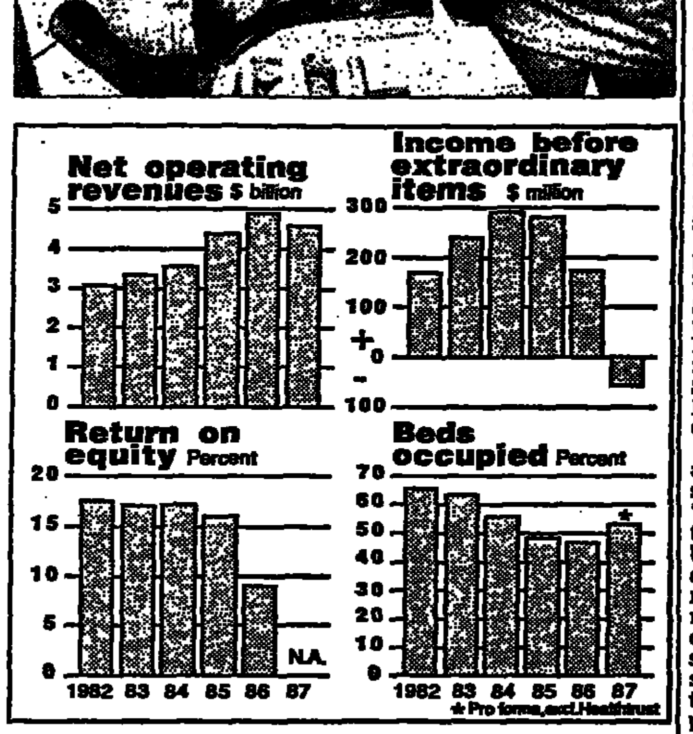
This is certainly no charitable gift to HealthTrust's 23,000 employees or to McWhorter, who said he could not comment because of regulations surrounding a new issue of debt securities. The Employee Stock Ownership Plan (ESOP) is simply a tax-efficient financing vehicle.

Institutions lending to ESOPs get tax concessions on the interest they receive, so HealthTrust can borrow at 10-20 per cent lower rates than its peers. It needs the break. The hospitals are mostly in rural areas hard-hit by spending curbs, with occupancies in the low 40s per cent. The $1.7bn pile of loans and junk bonds is sure to consume over half of HealthTrust's annual cash flow in interest payments.

But Hospital Corporation has a winner. In one bound, it has jacked up the occupancy rate at its remaining 82 US hospitals (to 52.7 per cent) and boosted its earnings, cut debt and increased the preponderance of the 50 high-margin psychiatric hospitals. Frist says the international division, which comprises 30 hospitals, could also provide new opportunities – especially if private medicine advances in the UK.

Above all, Frist has bought out the arbs who were threatening to take away his company. The price was high. The stock-market crash left Hospital Corporation offering a minimum of $47 for shares priced at $32. "We had a commitment out there," Frist says now.

And the last thing Frist needed was $600m in cash. This year, Hospital Corporation will generate more cash than it uses for the first time in 20 years. But he will not be going out and buying anything. "If I could buy Humana tomorrow, I wouldn't. And I'm no longer looking at diversification."



UK Pay scales

Global comparability – the downside

BY MICHAEL SKAPINKER

IN HIS 1986 chairman's report, Lord Hanson told Hanson shareholders that he did not think the industrial conglomerate's executives were earning enough.

"We are strong believers in financial incentives for our management," he said. "We have sought and accepted independent professional advice to introduce a new incentive plan for those responsible for your company's outstanding growth."

A year later, Lord Hanson told his shareholders that the new incentive plan was in place. Senior UK executives would now be rewarded according to "global pay rates". The impact of global rates on Lord Hanson's own pay was fairly dramatic. His emoluments increased from £227,000 to £1,263,000.

A report published last week by Charterhouse, the merchant banking and financial services group, said this made him the third highest paid executive in Britain. Only Christopher Heath, managing director of Baring Securities (£2.5m) and Sir Ralph Halpern, chairman of the Burton Group (£1,359,000) earned more.

Tony Vernon-Harcourt, the author of the Charterhouse study, criticised Hanson's move. "We find it difficult to accept that the concept of global pay should be widely adopted in UK-based companies," he said. "Whilst a minority of UK-based executives may resent the better terms offered to chief executives of some of their major overseas subsidiaries, most would accept that the UK-based executive should be paid in line with posts of similar complexity in other companies based in the UK."

Martin Taylor, a Hanson director, argues, however, that his is not just a UK company. "We've got a business with 70,000 employees in the States and 50,000 here. The chairman spends six months of the year in America."

Philip Burnford of Hay Management Consultants adds that interest in global pay rates is not confined to Hanson. "The board of other major multinational companies, particularly those that have the majority of their assets outside the UK are beginning to look at it too," he says. "There's no doubt that there is a move in this direction."

British oil and chemical companies which operate internationally can no longer be regarded as purely UK concerns "simply because they happen to be headquartered in London rather than Frankfurt or Pittsburgh," he says. "It's not as if their management is less efficient or productive. It's almost inevitable that we are going to see a growing equalisation of salaries."

At the moment, he says, UK multinationals face several difficulties as a result of the disparity in pay between Britain and other developed countries.

The best British executives are often tempted to join foreign companies because of the higher salaries offered abroad. "British managers are particularly vulnerable because they are both English-speaking and European. They could be tempted either way: by Europe or America," Burnford says.

When companies send British executives to work in their own foreign subsidiaries, with an increase in pay, it can be difficult to persuade them to come home.

Problems can also arise when UK multinationals decide to give one of their promising foreign managers a chance to work in Britain for a few years.

Interchangeable

"If you're talking about bringing someone from a German or French or American subsidiary, you're probably talking about an employment cost that's 100 per cent more than employing someone locally," Burnford says.

He points out that there is a precedent for the application of global pay rates to Britain. "People in the City of London saw themselves as totally interchangeable with people in New York," and were rewarded accordingly.

When Black Monday came, of course, many of those same highly-paid employees got a taste of the abrupt way in which Americans are often fired.

Might there not be some hidden disadvantages to global pay? If British managers are to receive American salaries, should they not also be prepared to accept the shorter holidays and lower job security that their US counterparts have?

Martin Taylor argues that Hanson's senior executives already do. "Nobody at the centre of Hanson gets more than four weeks holiday a year," he says.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. date	1987/88 High	1987/88 Low	Stock	Closing Price p	+ or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
215	F.P.	8/4	273	218	AMI Healthcare 20p	258	-3	u5.0	2.9	2.7	17.6
‡130	F.P.	15/4	165	150	Archer (A.J.) Hldgs 1p	160		R6.3	2.1	5.6	11.9
†	F.P.	-	159	150	Berry Starquest	158	+3	-	-	-	-
330	120	-	92	61	British Petroleum	81½	-1½	‡12.5	1.5	5.9	14.5
20	F.P.	-	160	131	‡Carron Phoenix 10p	160		R3.5	2.7	3.0	16.7
‡130	F.P.	-	148	136	‡Copymore 5p	136		h2.0	3.0	2.0	16.6
‡30	F.P.	28/3	42	30½	Gardiner Group 5p	41		b0.75	3.9	2.5	13.9
‡64	F.P.	28/4	78	64	‡Hughes (H.T.) 10p	76	+1	c2.25	2.1	4.1	14.1
160	F.P.	25/3	165	154	‡London Forfaiting	160		h6.3	2.3	5.5	9.6
‡100	F.P.	8/4	109	100½	‡Norfolk House Group 5p	106	+5	R2.19	3.8	2.8	10.6
†	F.P.	-	89	70	Selective Assets Tst 10p	71		-	-	-	-
‡650	F.P.	21/3	775	710	Shanks & McEwan 50p	775xd		b15.5	2.3	2.7	21.1
‡130	F.P.	-	138	123	TBI Group 1p	132	+1	R4.75	3.0	4.9	9.4
125	F.P.	18/3	145	123	T.I.P. Europe	141		R4.2	2.3	4.1	11.9
‡80	F.P.	2/3	90	81	‡Tikon 5p	85	+3	u2.35	2.7	3.8	13.4
‡50	F.P.	-	60	57	‡Transrap Hldgs 10p	60		h2.0	2.0	4.6	15.4

FIXED INTEREST STOCKS

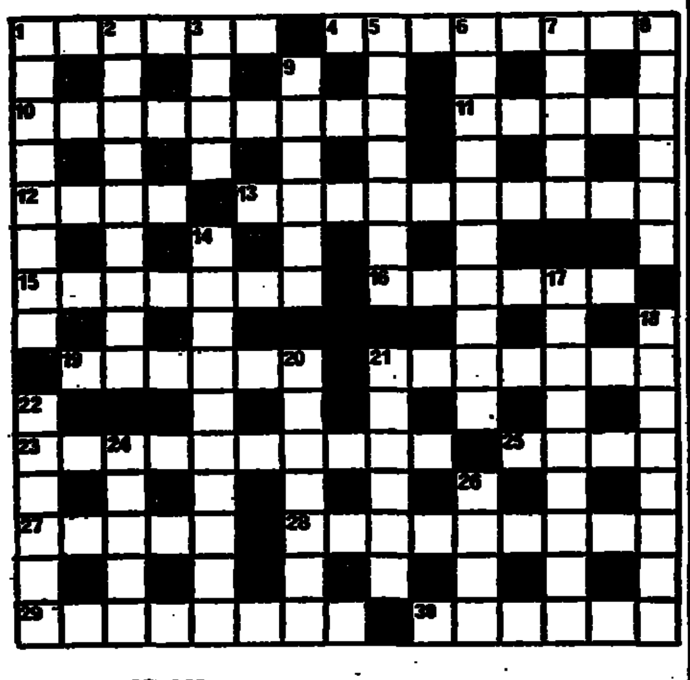
Issue Price £	Amount Paid up	Latest Renunc. Date	1987/88 High	1987/88 Low	Stock	Closing Price £	+ or -
100	F.P.	-	111	109	Argyle Trust 11pc Cnv.Sub.Uns.Ln 1992	109	-1
100	F.P.	-	110	100	BTP 7.5p (net) Cnv.Cm.Red. Prf.	110	
100	F.P.	1/3	106p	103p	Cooper (F.) 6.5p Cnv.Red.Cnv.Ptg.Prf	105p	
100	F.P.	-	112p	108p	Eness 6.25p Net Cnv.Cum.Red.Prf.	109p	-½
100	F.P.	15/6	119	107	Grt. Prtlnd. Est. 9½pc.Cv.Uns.Ln 2002	119	
100	F.P.	-	120p	108p	Morgan Crucible 7.5pc Net.Cv.Cm.Rd.Pf	119p	-1
100	F.P.	-	107p	102p	Nat. Home Loans 7.5pc Cnv. Pf	106p	
-	F.P.	-	100p	100p	N'wide Anglia 9⅞ Bd Red 13.3.89	100p	
-	F.P.	-	100⅛	99⅞	Do. 9⅞pc 20.2.89	100⅛	
?	F.P.	-	91p	89p	Select Assts Tst Uts Eqy Ind Ln'13	89p	
100	F.P.	-	109p	107p	Scott & Robertson 7½ Cum.Cnv.Red.Prf	108p	
100	F.P.	-	105	103	Smith New Court	101	-2
100	F.P.	-	115p	100p	Stanley (A.G.) 5.75p Cum.Cnv.Red.Prf	115p	
100	F.P.	-	125p	116p	Thomson T-Line 5.75p Net.Cv.Red.Prf	123p	
100	F.P.	-	116p	110p	Widney 8.76pc. Cv.Cm. Rd.Pf. 2000 £1	115p	
-	F.P.	-	138	127	Woolworth 8½pc. Cnv.Uns Ln. 2000	136	-1

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987/88 High	1987/88 Low	Stock	Closing Price p	+ or -
100	Nil	7/4	4½pm	2pm	Camblum Venture Cap.	4pm	
9	Nil	-	3½pm	2pm	Jackson Exploration	2½pm	
17	Nil	-	7pm	5pm	Mining & Allied Supplies	8pm	+1
220	Nil	22/4	50pm	20pm	Parrish 5p	20pm	
250	Nil	25/3	110p	60pm	Press Tools 10p	110pm	
57	Nil	22/4	20pm	6pm	‡Splash Products 10p	17pm	

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. †† Reintroduction. ‡ Issued in connection with reorganisation merger or takeover. § Allotment price. ‡ Unlisted securities market. ‡ Official London listing. □ Including warrants entitlement. * Third Market.

FT CROSSWORD No.6,580
SET BY PROTEUS



ACROSS

1 Gaudy vehicle to carry remains (6)
4 Traveller turning to police of necessity (8)
10 He does not believe in government chief in guise of saint (9)
11 Follow letter to girl....(5)
12 ...long delayed with some chocolates (4)
13 Titillating entertainment put over by E. Cleland? (5-5)
15 It's near becoming a fatty acid (7)
16 Look in a certain direction (6)
19 Train horses? (6)
21 Return game in which you formerly went wrong (7)
23 *Mum or Dad in foreign* play it would seem (10)
25 Pen-point causing eye trouble (4)
27 A tax on race-track (5)
28 Signal soldiers find easy to pick up? (4,5)
29 Pole attending arena for boxing (8)
30 Looked to see what cricket-ball did? (6)

DOWN

1 Brave nobleman included in heraldic band (8)
2 Meant perhaps to go round some flat (9)
3 Wine put in pawn (4)
5 Girl archer in sea-change (7)
6 Stops to drink in hunting, racing, etc. (5,5)
7 Part-timer is encouraged to have got on (5)
8 Team number (6)
9 Writer geting on to become well known judge (6)
14 Judge turning traitor after bar reorganisation (10)
17 Flowerless plant descried in ancient alphabet on underground cell (9)
18 Referred to in public notice by journalist (8)
20 Calvinist providing *information* about part of church (7)
21 Expression of grief about railway remuneration (6)
22 They are spoken of with uneasiness (6)
24 Right to put out type of purgative drug (5)
26 Conservative sportsman (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 26.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

هكذا مع الأصل

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6993/4/5

Scimitar Global Gth Ac	28.9	30.8	+0.2	–
Do. Income	28.7	30.6	+0.2	0.19
Scimitar European Acc	21.1	22.5	–	
Do. Income	21.1	22.5	–	0.11
Scimitar UK Eq Inc Acc	35.9	38.2	-0.3	–
Do. Income	33.5	35.7xd	-0.3	5.54
UK Cap Gth Acc	24.8	26.2	–	0.75
Scimitar Pac Basin Acc	29.8	31.8	+0.2	–
Scimitar Mngd Exempt	141.4	147.3xd	–	–

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-556 1031

Insd Income Units	128.8	137.0	–	3.32
Insd Accum Units	197.4	210.0	–	3.32
UK General Acc	38.7	41.1	+0.1	5.38
UK General Inc	37.2	39.8	+0.1	5.38
American	27.3	29.2	-0.5	2.13
European	34.7	37.1	+0.1	1.26
Japan	56.1	60.0	+0.2	0.03
Technology	35.2	37.6xd	-0.5	2.29
Performance Trusts				
Far East Perf Tst	18.3	19.6	-0.1	2.00
High Inc Perf Tst Inc	24.4	26.1	+0.2	4.36
High Inc Perf Tst Acc	24.9	26.6	+0.2	5.36
Worldwide Tech Perf Tst	28.4	30.4	–	2.71

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK)	211.6	226.4	+0.1	2.60
Columbus (US)	129.0	138.0	-2.5	1.33
Marco Polo (Pac)	210.7	225.4	-1.6	0.20
Da Vinci (Eur)	224.3	239.9	+0.9	1.69
Drake (Wld)	52.9	56.6	–	2.78

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	206.0	219.2	-0.1	2.92
UK Smllr Cos. Equity	212.1	225.7	+0.5	1.90
UK Special Situations	61.2	65.2	-0.1	2.92
Income Plus	52.7	56.1	+0.1	5.45
European	160.8	171.1	-0.4	1.49
Far Eastern	51.9	55.3	-0.3	2.10
Japanese I	53.5	57.0	-0.3	–
North American	111.6	118.8	-0.3	1.33
International Growth	107.0	113.9	-0.3	1.76
Worldwide Venture	53.2	56.6	-0.2	4.06

Scottish Provident Inv. Mgt. Ltd
6 St Andrew Sq, Edinburgh 2 031-556 2341/2/3

Equity Growth Tst Acc	17.77	19.02	+0.04	2.97
Equity Growth Tst Inc	17.77	19.02	+0.04	2.97
Intl Growth Tst Acc	17.75	19.00	-0.27	1.56
Intl Growth Tst Inc	17.75	19.00	-0.27	1.56
Global Income Tst Acc	18.81	20.13	-0.06	5.46
Global Income Tst Inc	18.81	20.13	-0.06	5.46
Market Leaders Tst Acc	16.66	17.83	-0.05	2.97
Market Leaders Tst Inc	16.43	17.59	-0.05	2.97

Scottish Unit Managers
48 Melville Street, Edinburgh EH3 7HF 031-226 4372

Pacific Fund (z)	79.0	83.9	-0.5	0.00

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-628 8011

TUUT Mar 1	212.5	223.7xd	–	3.22

Triton Fd Mngrs. Ltd.
Royal Lon. Hse. Colchester CO1 1RA 0206 764400

Triton General	147.2	158.3	-0.3	1.56

Tyndall Unit Trust Managers Limited
25 Bucklersbury, London EC4N 248 3999

Convertible & General	59.1	62.7	+0.2	6.35
Accum Units	60.8	64.5	+0.2	–
Income	80.9	85.8	+0.4	4.37
Accum Units	80.9	85.8	+0.4	–
Smaller Co's	82.5	87.5xd	-1.6	1.85
Accum Units	83.6	88.4	-1.7	–
UK Growth	85.2	90.3xd	-1.1	2.24
Accum Units	86.3	91.5	-1.1	–
Pacific Gold Tst Acc	47.6	50.5	–	–

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403 56000

Britain Growth Fd	60.2	64.1	+0.2	1.67
Technical Analysis Fd	51.2	54.5	-0.1	3.33

Unit Trust Account & Mgmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6064
Advisors: Henderson Crosthwaite Ltd

Friars Hse Cap Fd	180.5	192.0	–	1.38
Friars Hse Inc Fd	152.7	160.7	–	3.40

United Charities Unit Trusts (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

United Charities	172.6	184.1	+0.4	4.46

Vanguard Trust Managers Ltd (z)
65 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

Gilt/Conv	181.7	193.3xd	-1.2	1.48
(Accum Units)	185.8	197.7	-1.3	1.48
Far East & Gen	53.7	57.1	-0.2	–
(Accum Units)	53.7	57.1	-0.2	–
Master Portfolio	66.712	68.423	+0.199	3.07
(Accum Units)	68.561	70.329	-0.164	3.07
American & Gen	55.3	58.8	-0.9	1.85
(Accum Units)	56.1	59.7	-0.7	1.85
Growth	213.3	226.9xd	+1.0	2.03
(Accum Units)	321.7	342.2	+1.6	2.03
High Yield	271.5	288.8xd	+0.8	4.41
(Accum Units)	291.3	309.8	+0.9	4.41
Special Sits	52.6	56.0	+0.3	1.92
(Accum Units)	54.3	57.8	+0.2	1.92
Trustee	161.6	171.9	+0.4	4.14
(Accum Units)	260.0	276.6	+0.5	4.14
European Fund Inc	36.3	38.6	+0.2	0.66
(Accum Units)	36.5	38.8	+0.2	0.66

Wardley Unit Trust Managers Ltd (a)
99, Bishopsgate, London, EC2P 2LA 01-374 0061

American Tst	51.2	54.7	-1.1	1.4
Intl. Growth Tst	65.2	68.9	-1.6	0.4
Income Tst	117.7	124.9	-1.3	5.3
Japan Growth Tst	174.7	186.9	-0.8	0.1
Pacific Perf. Tst	117.4	124.3	-1.3	0.4
Small Cos. Tst	137.2	146.7xd	-0.1	1.6

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd

Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds

Wealth Assoc.	380.7	400.9	---	–
Eb'r Ph. Eq.	316.0	337.6	---	–
Pension Plan Funds				
Phoenix				
UK Equity Acc.	166.4	175.1	-0.6	–
International Acc.	125.4	132.0	-1.6	–
Property Acc.	125.5	132.1	....	–
Fixed Interest Acc.	155.3	163.4	-0.4	–
Money Acc.	137.0	144.2	+0.1	–
Bldg. Soc. Link Acc.	134.1	141.1	-0.1	–
Special Mngd. Acc. Q	146.7	154.4	-0.2	–
Phoenix/Framlington				
Intel. Growth Acc.	89.3	93.9	-0.7	–
Amer. & Gen. Acc.	82.5	86.8	+0.1	–
Capital Tst. Acc.	175.9	184.5	....	–
Japan & Gen Acc.	176.3	185.5	-0.2	–
American Twn. Acc.	84.5	88.9	+0.3	–
Recovery Tst. Acc.	172.5	181.5	....	–
Special Mngd Acc.	143.4	151.1	+0.2	–
Phoenix/GT				
International Acc.	121.5	127.8	-0.5	–
US & General Acc.	91.2	96.0	+0.3	–
Amer Spec Sits Acc.	66.9	69.3	-0.1	–
Japan & General Acc.	173.0	182.1	-0.6	–
Far East & Gen. Acc.	136.5	143.6	-0.5	–
UK Capital Acc.	171.5	180.5	+0.1	–
European Acc.	134.1	141.1	+0.9	–
Special Mngd. Acc.	125.0	131.5	.....	–

Pioneer Mutual Insurance Co Ltd

16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	266.0	280.1	.....	–
Man Pen Inc & Cap Fds.	340.1	358.1	.....	–
Money Fund	111.5	117.4	.....	–
Pens. Mngd Fd (Init)	85.3	89.8	.....	–
Pens Mngd Fd (Acc)	96.0	101.1	.....	–
Pens FT30 Fd (Init)	129.6	136.5	.....	–
Pens FT30 Fd (Acc)	145.8	153.5	.....	–
Pens O'seas MgFd (Init)	56.7	59.7	.....	–
Pens O'seas MgFd (Acc)	63.8	67.2	.....	–
Pens Fxd Int Fd (Init)	105.2	110.8	.....	–
Pens Fxd Int Fd (Acc)	118.4	124.7	.....	–
Pens Deposit Fd (Init)	100.9	106.3	.....	–
Pens Deposit Fd (Acc)	113.6	119.6	.....	–

Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

American	84.0	89.0	-3.0	–
Building Soc. Fd	159.0	168.0	+1.0	–
Balanced	234.0	247.0	+1.0	–
Deposit	159.0	168.0	+1.0	–
European	121.0	128.0	.....	–
GT Managed	148.0	156.0	.....	–
Gartmore Mngd	95.0	100.0	.....	–
German	93.0	98.00	.....	–
Gilt	166.0	175.0	.....	–
High Inc.	103.0	109.0	-7.0	–
International Equity	149.0	157.0	.....	–
Japan	203.0	214.0	.....	–
Managed	51.0	54.0	.....	–
Property	244.0	257.0	.....	–
R. W. Imperial Gold	125.0	132.0	+7.0	–
UK Equity	302.0	318.0	+1.0	–

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
12Jan 12Jul	Conv 9pc Ln 2011	100 7/16	7.12	8.94	8.93
10Mar 10Sep	Treas 5½pc 2008-12‡‡	67 5/16 xd	2.2	8.12	8.70
26Jul 26Jan	Treas. 7¾pc 2012-15‡‡	88	21.12	8.77	8.89
12Jun 12Dec	Exch. 12pc '13-'17	129½	5.11	9.26	9.02

Undated

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
1Feb 1Aug	Consols 4pc	44¼	20.12	9.04	-
1Jun 1Dec	War Loan 3½pc‡‡	39	26.10	8.90	-
1Apr 10ct	Conv. 3½pc '61 Aft.	51 xd	24.2	6.85	-
5Apr 50ct	Treas. 3pc '66 Aft.	32 xd	1.3	9.12	-
5Ja Ap Jul O	Consols 2½pc	28xd	1.3	8.93	-
1Apr 10ct	Treas. 2½pc	28xd	24.2	8.95	-

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for June 1987: 101.9 and for January 1988: 103.3 (rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

Interest Due	Stock	Price £	Last xd	Div % Gross	Yield
1May 1Nov	Greek 7pc Ass.	45	2.11	3.50	f7.78
1Feb 1Aug	Do 6pc 28 Stb. Ass.	45	1.2	3	f6.67
1Apr 10ct	Do 4pc Mixed Ass.	45	1.10	2	f4.44
1May	Hong. '24 Ass.	65	1.5	2.75	f4.23
31May 30Nov	Hydro Quebec 15pc 2011	139	29.10	15.00	10.46
31Jan 31Jul	Iceland 14½pc Ln 2016	126	4.1	14.50	11.32
1Mar 1Sep	Ireland 9¾pc '91-96	100 xd	1.2	9.75	9.60

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Ma Ju Se De	TRW Inc. 62½c	27⅞	11.8	$1.60	—	3.2
Mr Je Sp De	Tenneco $5	22½	11.8	$3.04	—	7.3
June Dec	Do. 10pc Ln Stk. 93-5	158	13.12	10%	—	14.7
Mr Je Se De	Texaco $6.25	24	31.7	$3.00	—	6.8
Mr Ju Se De	Time Inc. $1	49⅞	24.01	$1.00	—	1.1
Ja Ap Ju Oc	Transamerica $1	18⅞	29.12	$1.84	—	5.3
Fe My Au No	Transworld Corp $5	961p	11.11	20c	—	1.1
Mc Je Se De	TRINOVA Corp.	18⅛	9.11	56c	—	1.7
Mr Je Se De	USX $1	17½	30.10	$1.20	—	3.8
Mr Je Sp Dc	Utd. Technologies	20⅞	19.5	$1.40	—	3.7
Fb My Ag No	US West	28¾	13.4	$3.28	—	6.2
Ap Jy Oc Jan	Waste Management $1	19	15.12	36c	—	1.0
Mr Jn Se De	Whirlpool $1	14½	25.01	—	—	—
Mr Je Se De	Woolworth $3½	24	19.11	$1.32	—	3.0

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
—	AB M Gold Corp	220p	—	—	—	—
—	Abbot Energy Corp.	17¼	—	—	—	—
—	Amer. Barrick Res.	11½	—	—	—	—
—	American Lightwave	4¾	—	—	—	—
	Armeno	28p	—	—	—	—
—	Augmitto Explo.	51½p	—	—	—	—
Fb My Ag Nv	Bk. Montreal	11¾	9.11	$2.00	—	7.5
Ja Ap Jn Oc	Bk. Nova Scot.	565p	29.11	72c	—	5.6
Ap Jy Oc Ja	BCE	16⅞	10.02	$2.44	—	6.4
May Nov.	Bow Valley	604p	15.12	40c	—	2.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES—Contd

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
June Nov.	Sun Life 5p	£28½	28.9	128.5	–	3.7	–
April	♦Taisho M EDR	£49⅛	25.3	g010%	–	0.9	–
Fb My Au Nv	Torchmark $1.00	£15⅞	13.89	Q$1.00	–	3.4	–
Nov. May	Trade Indemnity	365	28.9	14.3	–	1.6	–
Ma Ju Se De	Travelers $2.25	£29⅞	28.7	$2.40	–	6.6	–
Ap Au Ja	USF & G Corp $2.50	£17⅝	22.8	Q$2.64	–	8.2	–
Dec. June	USLIFE Corp. $1.0	£24½	14.10	Q$1.28	3.2	3.6	8.7
June Nov	♦Utd Friendly B 10p	495	12.10	21.0	–	5.7	–
May Nov	Willis Faber 12½p	218	28.9	†10.75	2.4	6.8	8.3
Mar. July	Windsor Secs. 10p	63	25.1	0.8	♦	1.7	♦

LEISURE

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
–	♦A & M Group 10p	11	8'06	–	–	–	–
January	Airtours 10p	104	25.1	L5.4	1.6	7.3	12.1
May Aug.	Anglia TV	413	7.3	14.5	♦	4.8	♦
Oct Apr	♦Avesco 1p	81	13.7	0.5	6.7	0.8	22.9
Sept Apr	♦BCE Hldgs 5p	40	8.2	Ld1.0	2.7	3.4	14.9
July Nov	Barr & W.A.T. 'A'	225	29.9	18.0	1.4	4.9	18.3
–	♦Bond Media	21	–	–	–	–	–
–	Boosey & Hawkes	210	4'84	–	–	–	–
October	♦Border T.V.	41	8.2	†1.4	2.4	4.7	11.9
June Dec	Brent Walker 10p	349	9.11	106.5	2.2	3.9	16.8
Jan July	Do cnv. Cv.Cm Rd.Pf.	104	–	6.0	–	7.9	–
Mar. Nov.	Campari Int. 20p	279	14.9	3.0	5.1	1.5	14.3
November	♦Castle Comms. 5p	195	12.10	L7.0	2.0	5.1	13.6
May Nov	Capital Radio 10p	188	23.11	6.0	2.7	4.4	11.6
Nov May	Central ITV	531	12.10	117.0	2.3	4.4	13.8
Jan July	Chrysalis	120	7.12	7.0	1.9	8.0	8.9

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING—Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

A selection of Options traded is given on the London Stock Exchange Report Page

CONSTRUCTION CONTRACTS

City Gate scheme

JOHN LAING CONSTRUCTION has started work on a £9.4m contract at City Gate, Southwark Bridge. The order has been awarded by Brixton Estate and involves construction of an office on an existing basement, two industrial buildings and external works. Completion is scheduled for the end of the year.

Town hall extension

Crawley Borough Council has awarded JAMES LONGLEY & CO an £8m contract for the design and construction of a town hall extension and multi-storey car park. Work is expected to start next month, with completion scheduled for the end of next year.

The 45,000 sq ft scheme fronting Exchange Road, Crawley, comprises an L-shaped building on four floors which will form an open courtyard together with the existing six and two-storey accommodation. Included is a six-storey car park providing 550 spaces.

Roadworks for Fitzpatrick

Contracts worth £4.3m have been awarded to FITZPATRICK & SON (CONTRACTORS). The first, worth £2.6m, from the Hertfordshire County Council, is a 17-week maintenance contract for the M25 London orbital motorway, Potters Bar to A10 – junction 24-25 section. The works will include the replacement of crash barriers, lighting cables and associated drainage works.

Road widening works in the Royal Docks is the basis of the second contract, awarded by the London Borough of Newham. The contract, worth £1.7m involves reconstruction and widening of around 800 metres of the North Woolwich Road in Silvertown, along with associated drainage and accommodation works.

Upgrading Liverpool Street

Three contracts have been awarded to the P & O Group company BOVIS CONSTRUCTION to provide construction management services for works totalling £45m on the redevelopment of British Rail's Liverpool Street Station in the City of London.

During the next two years Bovis Construction will be involved in contracts for the rebuilding of the station and for ensuring this work takes place without interruption to rail and London Underground services.

Other associated works include the construction of a five-storey office block, fit out of a new Post Office and British Rail engineers' facilities within the station, platform alterations and extensions, installation of trading units and restaurants, escalators, gantries and walkways, and construction of ticket halls for British Rail and London Underground's Central and Circle Line stations.

When completed, a single spacious concourse will provide easy access to all platforms from new passenger entrances in Bishopsgate, Liverpool Street and Broadgate and from the new bus, taxi and underground interchanges.

Bovis Construction has also been awarded a £3.5m contract by Merivale Moore and Ransomes Dock Group to refurbish a riverside warehouse (formerly the Bishops Move furniture depository) at Ransomes Dock in Battersea, south west London.

Work is due to start on the mainly Victorian building early in May. The ground and first floors will be converted into 22,500 sq ft of office and commercial space and 6,500 sq ft of retail space. The remaining four storeys together with a new sixth storey, will be converted into 33,500 sq ft of luxury residential accommodation, including three two-storey penthouses. A walk will be constructed along the perimeter of Ransomes Dock. A parking area will be provided and extensive landscaping will be undertaken prior to completion in September 1989.

Docklands residential development

The Bishop's Stortford-based ELLIOTT GROUP has won a £30m contract to build Burrell's Wharf. This is the second project which Elliott is building for the developers, Kentish Homes, in Docklands. The luxury residential development "Cascades" is just up the road.

Burrell's Wharf is a mixed development. On the residential side, the apartments will be both new-build and refurbished. The listed building on the site – the "Platehouse" – is to be converted to a leisure complex with a swimming pool, sauna, and a gymnasium. The scheme also includes shops, craft studios and offices.

The development will take two years to complete. The new-build structures will include "Port House" with 11 two-bedroom apartments and a roof terrace; "Forge", containing 38 two-bedroom flats and eight one-bedroom units; "Beacon", a four-storey structure built around a listed octagonal chimney, with 31 two-bedroom flats and six one-bedroomed flats. "Wheelhouse" and "Bridge" will be two new-build apartment buildings beside the river. They will contain another 140 units. "The Foundry" will offer a choice of 53 warehouse-style apartments with either patio, terrace or balcony. Work on site will begin in April.

Spread of work for Glenlion Group

THE GLENLION GROUP has secured contracts in London and the south east worth over £21m.

The largest is for a 48-unit £2.8m sheltered scheme for the frail elderly on behalf of Woking Borough Council.

Other sheltered schemes include a £1.7m development of 43 flats and two bungalows at Wickford for Basildon District Council; 27 flats with warden's house for Luton Borough Council (£975,000); and a 33-unit sheltered block at Bethnal Green for Barratt Urban Construction (East London) (£950,000).

Two schemes for Elmbridge Borough Council include extensive remodelling of aged persons accommodation at Hersham to provide 53 refurbished flats and two warden's maisonettes worth £1.5m; and at West Molesey 23 refurbished flats and a new-build extension containing 13 flats valued at £1.3m.

The rest of the orders placed with the group covers work on housing, schools and offices.

City of Leeds office project

HIGGS AND HILL NORTHERN has started work on a £2.6m contract for Helical Properties to construct a seven-storey office development on an island site in the centre of the City or Leeds. The development, West Gate Point, will yield around 56,000sq ft of office accommodation. All elevations will be brick clad with cherry red coloured aluminium windows and curtain walling. The roof will be finished in slate and supported on timber and steel. The frame of the building will be of structural steel, supported by concrete shear walls. An interesting visual feature of the development will be two hexagonal towers rising the full height of the building.

Maintaining Manchester motorways

EDMUND NUTTALL has been selected as the Department of Transport contractor for the latest stage of the Manchester motorway term maintenance work. The contract is worth over £6m, and Nuttall will maintain sections of the M56, M61, M62 and A5103, in conjunction with all of the M63, M66, M67 and M602 for a further 113 weeks.

Other contracts won by the company include creation of a pedestrian precinct in the centre of Dover; and the first stage of the Portland railway gravity sewer.

Further orders include removal of underground obstructions in the London Bridge City phase 2 project, worth over £2m; and reconstruction of Ordnance Wharf for British Gas, worth £1.1m. A day training centre being built in Parkstone for Dorset County Council is valued at £1.2m.

DIARY DATES

Trade Fairs and Exhibitions: UK

Current
Daily Mail Ideal Home Exhibition (01-222 9341) (until April 4) — Earls Court

Current
British Footwear Fair (01-739 2071) (until March 15) — NEC, Birmingham

March 15-26
Antiques Fair (04447 2514) — Old Town Hall, Chelsea

March 15-17
London Food Exhibition (01-486 1951) — Wembley Conference Centre

March 16-19
European Technology & Innovation Opportunities – EUROTECH SCOTLAND — Scottish Exhibition Centre, Glasgow

March 18-20
Midlands Franchise & Business Opportunity Exhibition (0202 581122) — NEC, Birmingham

March 20-22
International Cycle & Leisure Fair – CYCLE (01-390 2211) — Olympia

March 21-24
Materials Testing Exhibition (07072 75641) — NEC, Birmingham

March 22-24
Electronic Printing and Publishing Exhibition (01-647 1001) — Olympia

March 23-25
Fashion Fabrex (01-385 1200) — Olympia

March 27
Antiques and Collectors Fair (01-883 7061) — Alexandra Palace, London

March 28-30
London International Book Fair (01-940 6065) — Olympia

March 29-31
Scottish International Food & Drink Sales Equipment Exhibitions (031-225 5486) — Scottish Exhibition Centre, Glasgow

Overseas Exhibitions

Current
International Spring Fair (01-491 8552) (until March 19) — Leipzig

March 20-24
Agriculture, Irrigation & Agri-Industry Exhibition – SAUDI AGRICULTURE (01-486 1951) — Riyadh

March 21-25
International Gift, Jewellery & Stationery Spring Show (Taipei(02)725 1111) — Taipei

April 5-11
Anglo-Jordanian Trade Fair (01-409 0766) — Ammman

Business and Management Conferences

March 15
Electronic Publishing Services: Evaluating investment and acquisition opportunities in the information industries (01-490 1185) — The City Conference Centre, London EC3

March 15
Institute of Directors: Retirement - an outdated concept (01-839 1233) — 116 Pall Mall, London SW1

March 15-16
Frost & Sullivan's 14th semiannual conference on political risk (01-730 3438) — Inn on the Park, London W1

March 16
Eurofi/Butterworths: Government Finance for Industry - Worldwide (0222 30869) — Queen Elizabeth II Conference Centre, London

March 16
Institute of Directors: Corporate identity, culture and communication - does your company identity work for you? (01-839 1233) — 116 Pall Mall, London SW1

March 17
D.C.Gardner: Short termism in the stock markets (01-283 7962) — 5-9 New Street, London EC2

March 21
Institute for International Research: Compliance with the capital adequacy regulations (01-434 1017) — Park Lane Hotel, London W1

March 21-22
Euromoney: Futures and options (01-236 3288) — Grosvenor House, London W1

March 24
The Electricity Consumers' Council: Privatising electricity – a chance for change? — The Hotel Russell, London WC1

March 24-25
Financial Times Conferences: Technology in the international securities markets (01-925 2323) — Hotel Inter-Continental, W1

March 24-25
DRI Europe: International economic outlook conference - 1988/90 The years of living dangerously, world imbalances, currencies and equities (01-222 9571) — Hyatt Regency Hotel, Brussels

March 28-29
International Bulk Journal: Bulkship '88 conference - what really lies ahead? (0306 887438) — London Marriott Hotel

March 28-29
The Economist: Doing business with the new Japan (01-839 7000) — Park Lane Hotel, London W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

PARLIAMENTARY

TODAY

Commons: Housing (Scotland) Bill, remaining stages.

Consideration of Lords amendments to Social Security Bill.

Lords: Consolidated Fund bill, 2nd reading.

Employment Bill, committee.

Matrimonial Proceedings Bill, committee.

Foreign Marriage (Amendment), second reading.

Duchy of Lancaster Bill, second reading.

Select committee: Public accounts, subject: Dockyards commercial management. Witnesses: Vice-Admiral Sir Benjamin Bathurst, chief of fleet support, MoD. (Room 16, 4.45 pm).

TOMORROW

Commons: The Budget. Opposed private business after 7 pm.

Lords: Licensing Bill, committee.

Motions on Financial Services Act orders.

Select committee: London Docklands Railway (Beckton). (Room 5, 10.30 am).

WEDNESDAY

Commons: Continuation of Budget debate.

Lords: Short debate on the recruitment process covering the security services and contracts of silence.

Short debate on the state of business education.

Betting, Gaming and Lotteries (Amendment) Bill, report.

Select committees: Trade and Industry, subject: Petrol retailing. Witnesses: Petrol Retailers Association; Mr Eric Dunkerley (Room 15, 10.15 am.) Defence, subject: Royal Navy surface fleet; Royal Fleet Auxiliary support. Witness: MoD. (Room 16, 11 am.)

Energy, subject: The structure, regulation and economic consequence of electricity privatisation. Witnesses: Electricity Consumers Association representatives. (Room 8, 11 am.)

Employment, subject: Urban development corporations. Witnesses: Mr J. Dickinson, Rosehaugh Stanhope Developments. (Room 15, 4.15 pm.)

Social Services, subject: Perinatal and infant mortality. Witness: DHSS. (Room 6, 4.15 pm.)

London Docklands Railway (Beckton). (Room 5 10.30 am.)

THURSDAY

Commons: Continuation of Budget debate.

Lords: Matrimonial Proceedings Transfers Bill, 3rd Reading.

Multilateral Investment Guarantee Agency Bill, 3rd reading.

Select committee: London Docklands Railway (Beckton). (Room 5, 10.30 am.)

FRIDAY

Commons: Private members' motions.

FINANCIAL

TODAY

COMPANY MEETINGS–
Blue Arrow, The Savoy Hotel, Strand, W.C. 11.00
Brooks Tool Engineering, Cutlers Hall, Church Street, Sheffield. 12.00
Granada Group, The Savoy Hotel, Strand, W.C. 11.30
Morley Firth Exploration, 14-20, St. Mary Axe, E.C. 11.00

BOARD MEETINGS–
Finals:
Alida Hldgs.
Appleyard Group
British Vita
Cassella Inv.
[illegible]
Davidson Pearce Group
Edinburgh Fund Managers
Fisher (James)
Glynwed Int.
[illegible]
Hibernian Group
Invergordon Distillers
Keep Trust
Norfolk Capital Group
Pentland Inds.
Ransomes Sims & Jefferies
Renishaw
Transport Development Group
Interims:
Armstrong Equipment
Brierley Inv.
Glass Hldgs.
Harmony Gold Mining
Industrial Finance & Inv. Corpn.
MAI
Wolseley

DIVIDEND & INTEREST PAYMENTS–
British Bloodstock Agency 2.5p
Citicorp Overseas Finance Gtd. Flg. Rate Nts. 1994 $21.17
G.T. Japan Inv. Tst. 0.4p
Honeywell Inc. 52cts.
Howard Hldgs. 0.8p
Investors in Industry 12⅞% Un. Ln. 1992 6[illegible]pc.
Korea Exchange Bank Flg. Rate Nts. 1998 $410.76
Nedlbrn Finance Gtd. Flg. Rate Nts. 1993 $2117.21
Smith (W.H.) A 3p
Do. B 0.6p

TOMORROW

COMPANY MEETINGS–
First Leisure Corporation, The Prince of Wales Theatre, Coventry Street, W. 12.00
Hewitts, Pembroke Hotel, Blackpool. 11.00
Kershaw (A.) & Sons, 6, Connaught Place, W. 10.00
Meldrum Investment Trust, Cayzer House, 2, St. Mary Axe, E.C. 11.30

BOARD MEETINGS–
Finals:
Corah
Low Howard–Spink & Bell
Novo Industri
Renaissance Hldgs.
Steel Burrill Jones Group
Touche Remnant Pacific Basin Inv. Tst.
Interims:
Paterson Zochonis
Robinson Bros. (Ryders Green)
Shires Inv.
Thorpe (F.W.)

DIVIDEND & INTEREST PAYMENTS–
BICC 7% Deb. 1985/90 3½pc.
CSX Corpn. 31cts.
CalFed Inc. 30cts.
Cummins Engine 55cts.
Dana Corpn. 38cts.
Edinburgh Inv. Tst. 3.65% Cum. Prf. 1.825p
FPL Group 53cts.
Ferranti 0.72p
Fooding 6% Ln. 1988 3pc.
Gartmore American Securities 11¾% Deb. 2014 5⅞pc.
Govett Strategic Inv. Tst. 5% 1st. Deb. 1985/90 2½pc.
Kalamazoo 40cts.
Korea Development Bank 7⅞% Bds. 1989 3[illegible]pc.
Louisiana Land & Expln. 25cts.
Lucas Inds. 7¼% Un. Ln. 1983/88 3⅝pc.
MIM Britannia Jersey Gilt Fund Ptg. Red. Prf. 0.625p
Morrison (William) 5¼% Cum. Red. Cnv. Prf. 2.23p
Pennzoil 55cts.
Province de Quebec 12¾% Ln. 2020 6⅜pc.
Royal Trust Yen Bond Fund Ptg. Red. Prf. Inc. Y2.5
Sweden (Kingdom of) 9¾% Ln. 2014 4⅞pc.
TRW Inc. 40cts.
Treasury 9% Ln. 1992/96 4½pc.
Trinova Corpn. 14cts.
Whirlpool Corpn. 27.5cts.

WEDNESDAY MARCH 16

COMPANY MEETINGS–
Camford Engineering, Stakemore Hotel, Little Wymondley, Stevenage, Herts. 12.00
Kemp (P.E.), Nelson Trading Estate, Morden Road, Merton, S.W. 12.00
Rank Organisation, Gloucester Hotel, Harrington Gardens, S.W. 11.00

BOARD MEETINGS–
Finals:
Admiral Computing Group
DRG
Jaguar
Renown Inc.
United Biscuits
Interims:
Armitage Bros.
Close Bros.
Impala Platinum
[illegible]

DIVIDEND & INTEREST PAYMENTS–
Agricultural Mortgage Corpn. 7¾% Deb. 1991/93 3⅞pc.
Christiania Bank OG Kreditkasse Flg. Rate Nts. 1998 $552.95
De Bull Flg. Rate Nts. 1991 [illegible]
Dawson Hldgs. 6p
[illegible] Natural Gas Commission Gtd. Flg. Rate Nts. 1995 $410.75
Swedish Exportkredit Flg. Rate Nts. 1992 [illegible]
Treasury 2% I.L. 1996 £1.49

THURSDAY MARCH 17

COMPANY MEETINGS–
Countryside Properties, The Brewery, Chiswell Street, E.C. 12.00
Electronic Data Processing, Tapton Masonic Hall, Shore Lane, Sheffield. 12.00
Grahams Rintoul Investment Trust, General Council of British Shipping, 30-32, St. Mary Axe, E.C. 12.30
KLP, 1, Crown Mill, W. 12.00
Kleinwort Charter Investment Trust, 10, Fenchurch Street, E.C. 12.45
River & Mercantile Trust, The Waldorf Hotel, Aldwych, W.C. 11.45
[illegible], 33, Grosvenor Street, W. [illegible]
TSB Group, Edinburgh Exhibition & Trade Centre, Ingliston, Edinburgh. 2.30

BOARD MEETINGS–
Finals:
BTR
Baynes (Charles)
Beatson Clark
Bristol
CCF Group
Church & Co.
Clarke (T.)
Data Group
Dowlan
Duncan (Walter) & Goodricke
Enterprise Oil
F & H Group
Hale Homes & Gardens
Hamilton Oil
Hampden Homecare
Jones (A.)
Legal & General
McLaughlin & Harvey
Mayborn Group
Morgan Grenfell
[illegible] Group
Richardsons Westgarth
Rowntree
[illegible]
Simon Engineering
[illegible] (Hldgs.)
Interims:
G.T. Venture Inv. Tst.
Gent (S.R.)
Greenfriar Securities Inv. Tst.
HTV Group
Interlink Express
Minorco
Town Centre Securities
Zambia Copper Inv.

DIVIDEND & INTEREST PAYMENTS–
Smith (David S.) 2.1p
Union Discount Co. of London 28p

FRIDAY MARCH 18

COMPANY MEETINGS
Babygro Holdings, Hayfield Industrial Estate, Kirkcaldy, Fife. 10.30
Cardiff Property, 1, Museum Place, Cardiff. 12.00
Drayton Far Eastern Trust, 11, Devonshire Square, E.C. 12.00
Newman Tonks, National Motorcycle Museum, Coventry Road, Bickenhill, W Midlands. 12.00
Stainless Metalcraft, Chatteris Engineering Works, Chatteris, Cambridgeshire. 12.00

BOARD MEETINGS–
Finals:
Ingham (George)
Sandvik Aktiebolag
Sykes–Pickavant Group
Interims:
Alba
LWT (Hldgs.)
Walker (Thomas)

DIVIDEND & INTEREST PAYMENTS–
Arab Banking Corpn. Flg. Rate Nts. 1996 $417.08
B.C.E. Hldgs. 0.4p
Bank fur Arbeit und Wirtschaft Sub. Flg. Rate Nts. 1990 $423.40
Credit National Gtd. Flg. Rate Nts. 1995 £113.44
Douglas (Robert M.) 1.3p
Dunton Group 0.28p
Group Development Capital Trust 0.08p
Marine Midland Banks Flg. Rate Sub. Nts. 2009 $210.12
Midland Bank Und. Flg. Rate Prim. Cap. Nts. (Sept. 1985) $423.40
Nationwide Bldg. Society Flg. Rate Nts. 1996 (2nd. Series) £36.23
Perkins (John) Meats 0.8p
Standard Chartered Und. Prim. Cap. Flg. Rate Nts. £114.53
Stockdale Hldgs. 3p
TNT 3.75cts.
YRM 1p

SATURDAY MARCH 19

BOARD MEETINGS–
Finals:
Yeoman Inv. Tst.

DIVIDEND & INTEREST PAYMENTS–
Treasury 11½% 2001/04 5¾pc.

SUNDAY MARCH 20

DIVIDEND & INTEREST PAYMENTS–
Exchequer 10½% 2005 5¼pc.
M. & G. American & General 1.7p
M. & G. Intl. Growth 3.1p

Company Notices

Ford

Following the DIVIDEND DECLARATION by the Company on 14 January 1988 NOTICE is now given that the following DISTRIBUTION will become payable on or after 14 March 1988.

Gross Distribution per Unit	2.50 cents
Less 15% U.S.A. Witholding Tax	0.375 cents
	2.125 cents
Converted at $1.8575	£0.011440108

Claims should be lodged with DEPOSITARY; National Westminster Bank PLC, Stock Office Services, Third Floor, 20 Old Broad Street, London EC2, on special forms obtainable from that Office.

United Kingdom Banks and Members of the Stock Exchange should mark payment of the dividend in the appropriate square on the reverse of the certificate.

All other claimants must complete the special form and present this at the above address together with the certificate(s) for marking by the National Westminster Bank PLC. Postal applications cannot be accepted.

DATE: 11 March 1988

Australia and New Zealand Banking Group Limited

U.S. $200,000,000

Subordinated Floating Rate Notes due 1998

For the six months 10th March, 1988 to 12th September, 1988 the Notes will carry an interest rate of 7½% per annum with an amount of interest U.S. $3,875.00 per U.S. $100,000 denomination, payable on 12th September, 1988.

Listed on the Luxembourg Stock Exchange.

Bankers Trust Company, London — Agent Bank

PNC Financial Corp
U.S. $100,000,000
Floating Rate Subordinated Notes
Due 1997

In accordance with the terms and conditions of the Notes, the rate of interest for the interest period 14th March, 1988 to 14th June, 1988 has been fixed at 6¹⁵⁄₁₆% per annum. Interest payable on 14th June, 1988 will be U.S. $177.29 per U.S. $10,000 Note.

Agent
Morgan Guaranty Trust Company of New York
London Branch

WORLD STOCK MARKETS

AUSTRIA

1987-88 High	Low	March 11	Price Sch %
2,410	1,810	Creditanstalt	1,990
3,450	2,460	Goesser	2,860
13,200	9,650	Interunfall	9,730
14,000	4,660	Jungbunzlauer	5,740
432	319	Laenderbank	350
780	556	Perlmooser	645
167	93	Steyr-Daimler	93
1,113	555	Veitscher Mag	608

BELGIUM/LUXEMBOURG

1987-88 High	Low	March 11	Price Frs.
3,465	2,270	B.B.L.	2,920
16,000	13,300	Banque Gen. Du. L.	13,600
15,200	4,260	Bank Int. A	13,000
13,175	6,700	Bekaert B	9,400
6,880	3,770	Ciment CBR	5,330
193	117	Cockerill	173
12,100	4,800	Colruyt	8,210
5,050	2,500	Delhaize	4,055
5,500	4,060	EBES	4,700
2,700	465	Fabrique Nat	800
1,650	750	GB Inno BM	1,220
4,525	2,035	GBL (BruxL)	3,080
6,850	4,100	Generale Bank	5,360
9,260	5,660	Gevaert	7,460
9,100	5,640	Hoboken	7,400
4,510	3,160	Intercom	3,750
4,900	2,990	Kredietbank	3,940
13,650	10,300	Pan Holdings	10,800
14,125	8,030	Petrofina	10,975
1,870	1,262	Raffinerie Tirle	1,480
8,000	3,940	Royale Belge	5,800
7,950	2,040	Soc Gen Belge	7,940
16,350	8,000	Sofina	12,650
15,850	8,270	Solvay	11,400
187	62	Stanwick Intl	150
8,550	4,830	Tractebel	6,970
11,950	6,640	UCB	8,600
6,000	3,000	Wagons Lits	5,000

DENMARK

FINLAND

FRANCE

FRANCE (continued)

1987-88 High	Low	March 11	Price Frs.
3,895	2,085	Carrefour	2,107
746	322	Club Mediterranee	412
1,185	304	Cie Bancaire	435
293	211	Cie Fin. de Suez	240
407	270	Cofimeg	297
347	181.8	CGE	228.5
3,300	1,310	Dassault	1,931
545	266	Darty	329
1,280	481	Dumez S.A.	530
1,543	890	Eaux (Cie Gen)	1,043
398	218	Elf-Aquitaine	263
4,230	1,800	Essilor	2,307
1,380	545	Gen. Occidentale	724
632.5	374	Havas	516
194.5	84.6	Imetal	155
2,985	1,299	LVMH	1,792
1,760	968	Lafarge Coppee	1,160
4,053	2,070	L'Oreal	2,800
3,950	1,900	Legrand	2,420
196	30	Maisons Phenix	48
239	107	Matra S.A.	136
384	136	Michelin B	180
1,734	780	Midi (Cie)	1,230
119	37	Moulinex	54
229	71	Nord Est	94
549	237	Paribas	300
1,186	600	Pernod Ricard	710
927	481	Perrier	591
558	323	Petroles Fra	350
1,678	790	Peugeot S.A.	913
810	325	Printemps Au	403
1,810	677	Radiotech	877
3,600	1,910	Redoute	2,180
1,925	490	Roussel-Uclaf	810
523	380	St Gobain	414
500	365	Sefimeg	409
1,560	630	Skis Rossignol	775
5,505	2,520	Telemech Elect	5,585
349	120	Thomson (CSF)	160
710	316	Valeo	389

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

HONG KONG

SINGAPORE

CANADA

TORONTO
Closing prices March 11

MONTREAL
Closing prices March 11

OVER-THE-COUNTER
Nasdaq national market, closing prices, March 11

Continued from Page 37

INDICES

NEW YORK — DOW JONES

	Mar. 11	Mar. 10	Mar. 9	Mar. 8	1987-88 High	1987-88 Low	Since compilation High	Since compilation Low
ϕIndustrials	2034.98	2026.03	2074.27	2081.07	2722.42 (25/8/87)	1738.42 (19/10/87)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	90.50	90.39	90.60	90.94	95.51 (9/2/87)	81.26 (19/10/87)	-	-
Transport	847.12	841.19	858.24	863.50	1101.16 (14/8/87)	661.00 (4/12/87)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	177.34	176.51	178.11	179.94	227.83 (22/1/87)	160.98 (19/10/87)	227.83 (22/1/87)	10.50 (8/4/32)

ϕDay's High 2049.07 (2,081.4) Low 1996.52 (2020.72)

STANDARD AND POOR'S	Mar. 11	Mar. 10	Mar. 9	Mar. 8	1987-88 High	1987-88 Low	Since compilation High	Since compilation Low
Composite	264.94	263.84	269.06	269.43	336.77 (25/8/87)	223.92 (4/12/87)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	307.39	306.25	312.46	312.42	393.17 (25/8/87)	255.43 (4/12/87)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	23.23	23.23	23.73	23.92	32.43 (25/8/87)	20.39 (7/12/87)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	149.45	148.92	151.48	151.62	187.99 (25/8/87)	125.91 (4/12/87)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	296.09	296.0	299.58	296.04	365.01 (13/8/87)	231.90 (4/12/87)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	375.48	376.76	380.28	376.93	455.28 (26/8/87)	291.98 (28/10/87)	455.28 (26/8/87)	54.87 (31/10/72)

	Mar. 3	Feb. 26	Feb. 19	year ago (approx.)
Dow Industrial Div. Yield	3.38	3.41	3.42	2.95

	Mar. 9	Mar. 2	Feb. 24	year ago (approx.)
S & P Industrial div. yield	2.93	2.96	2.99	2.58
S & P P/E ratio	15.41	15.13	14.92	20.82

TRADING ACTIVITY †Volume

Millions	Mar. 11	Mar. 10	Mar. 9
New York	200.020	198.644	210.900
Amex	13.459	18.080	15.190
OTC	126.597	160.230	158.667

NEW YORK	Mar. 11	Mar. 10	Mar. 9
Issues Traded	1,996	1,982	1,966
Rises	856	413	871
Falls	676	1198	636
Unchanged	464	371	459
New Highs	5	23	34
New Lows	4	5	6

CANADA

TORONTO	Mar. 11	Mar. 10	Mar. 9	Mar. 8	1987-88 High	1987-88 Low
Metals & Minerals	2719.8	2681.4	2772.6	2725.5	3507.5 (5/10/87)	1988.2 (2/1/87)
Composite	3321.2	3313.7	3334.1	3303.6	4112.9 (13/8/87)	2837.8 (28/10/87)
MONTREAL Portfolio	1661.16	1647.44	1664.49	1647.44	2224.77 (16/7/87)	1435.94 (26/10/87)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
MFS Intermed	9,997,400	10	—
US Fidelity & Gr	8,056,000	33	+ ⅞
People's Energy	4,161,000	18⅜	—
Phillips Pet	2,125,400	16½	+ 1¼
Varity	1,999,100	2⅞	- ¼
General Electric	1,997,800	43⅝	+ ⅝
Fed Dept Stores	1,920,100	66	+ 1¼
IBM	1,798,300	115½	+ 1⅞
Exxon	1,536,800	42⅝	+ ⅛
AT&T	1,487,200	28	- ¼

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.

	Mar. 11	Mar. 10	Mar. 9	Mar. 8	1987-88 High	1987-88 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1364.3	1359.2	1341.0	1316.4	2305.9 (21/9/87)	1151.0 (11/11/87)
All Mining (1/1/80)	656.9	653.1	637.4	627.7	1462.4 (14/10/87)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	171.88	172.17	172.15	171.56	232.19 (22/9/87)	163.98 (11/2/88)
BELGIUM						
Brussels SE (1/1/84)	4916.6	5013.7	5043.1	5021.7	5412.2 (13/8/87)	3505.8 (18/12/87)
DENMARK						
Copenhagen SE (3/1/83)	193.71	194.13	193.07	193.19	219.76 (27/8/87)	179.60 (20/11/87)
FINLAND						
Unitas General (1975)	591.7	588.8	585.4	590.1	679.1 (15/10/87)	425.2 (5/1/87)
FRANCE						
CAC General (31/12/82)	294.8	301.0	298.2	296.1	460.4 (26/3/87)	251.3 (29/1/88)
Ind. Tendance (31/12/87)	106.3	108.5	108.8	106.1	112.3 (25/2/88)	89.7 (29/1/88)
GERMANY						
FAZ Aktien (31/12/58)	454.59	458.29	456.31	456.50	676.84 (6/1/87)	396.40 (29/1/88)
Commerzbank (1/12/53)	1392.1	1402.4	1396.1	1394.8	2061.1 (17/8/87)	1207.9 (29/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	2595.45	2591.34	2551.76	2493.33	3949.73 (1/10/87)	1894.94 (7/12/87)
ITALY						
Banca Com. Ital. (1972)	506.87	499.32	498.41	497.51	767.34 (30/4/87)	423.91 (9/2/88)
JAPAN **						
Nikkei (16/5/49)	25643.73	25617.82	25605.39	25463.73	26646.43 (14/10/87)	18544.00 (13/1/87)
Tokyo SE New (4/1/68)	2091.42	2102.55	2104.33	2094.00	2258.56 (11/6/87)	1557.46 (13/1/87)
NETHERLANDS						
ANP-CBS General (1970)	241.1	243.6	243.3	239.5	334.1 (14/8/87)	192.2 (10/11/87)
ANP-CBS Industrial (1970)	195.8	198.1	197.9	193.5	280.8 (11/8/87)	147.5 (10/11/87)
NORWAY						
Oslo SE (4/1/83)	381.37	377.63	371.82	365.98	592.04 (21/9/87)	307.48 (10/11/87)
SINGAPORE						
Straits Times Ind. (30/12/66)	940.5	940.6	932.3	917.5	1505.4 (26/8/87)	700.4 (7/12/87)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	1349.0	1314.0	1276.0	2499.0 (3/8/87)	1212.0 (29/2/88)
JSE Industrial (28/9/78)	(u)	1476.0	1452.0	1443.0	2266.0 (16/10/87)	1387.0 (13/2/88)
SPAIN						
Madrid SE (30/12/85)	266.46	267.73	267.82	266.71	325.44 (6/10/87)	201.08 (4/12/87)
SWEDEN						
Jacobson & P (31/12/56)	2709.5	2709.0	2624.9	2606.5	3367.3 (8/10/87)	2068.6 (10/11/87)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	526.5	534.3	533.2	528.4	729.7 (5/10/87)	450.9 (10/11/87)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	446.7	448.8	446.9	495.9 (27/8/87)	361.3 (2/1/87)

** Saturday March 12: Japan Nikkei (c), TSE (c)

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3

Closing prices, March 11

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR n	.39	1.6	20	401	23¼	22⅝	23	−¼
38⅛	21	AFG s	.16	.5	14	2807	32⅛	31⅞	32⅛	+½
27	10½	AGS n			14	592	17¼	16¾	17	
10½	5	AMCA				16	5½	5⅜	5½	+⅛
9⅛	3¼	AM Intl				2111	4⅜	4⅛	4¼	+⅛
65½	26¾	AMR			13	4316	41¾	40⅞	41¼	+⅞
27¼	24⅞	ANR pf 2.67		10.		1	26¾	26¾	26¾	+½
25	19	ANR pf 2.12		9.4		4	22⅝	22⅝	22⅝	−⅝
12¼	6⅝	ARX			9	305	9⅜	9⅛	9⅜	+⅛
73½	40⅞	ASA	3	6.3		481	47¼	46⅝	47¼	+½
22⅝	9½	AVX			14	530	17⅛	16⅝	16⅞	−½
67	40	AbtLab	1	2.1	16	9241	48⅝	47½	48	−1¼
28	15⅞	Abitibi g				8	19⅝	19¼	19¼	−⅛
16¾	8½	AcmeC .40		3.6		94	11⅛	10⅞	11⅛	−⅛
10½	6⅞	AcmeE .32b		3.9	22	27	8¼	8⅛	8¼	
20	14⅛	AdaEx 3.05e		16.		125	18½	18⅛	18½	+¼
18½	6⅞	AdamMl .24		1.9	10	24	12⅝	12½	12⅝	+⅛
24⅞	7½	AMD				3460	12⅞	12¼	12½	−⅛
56¾	29¼	AMD pf	3	8.0		4	37¾	37½	37½	−½
11⅞	4⅝	Adobe			13	2265	8	7⅝	7⅞	+½
20½	16¼	Adob pf 1.84		10.		70	18½	18¼	18¼	−¼
21¾	17½	Adob pf 2.40		12.		6	20½	20½	20½	
15	6⅛	Advest .12a		1.6	8	107	7⅝	7⅜	7⅜	
[illegible]										

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
54	43½	PaPL	pf4.50	9.2		z90	49	49	49	−½
103	76	PaPL	pf8.60	9.8		z170	87¾	87⅝	87¾	−1
68¼	34¾	Pennwlt	2.40	4.5	13	294	53⅞	53	53¼	−⅝
39½	20½	Pennw	pr1.60	5.2		9	31½	30½	31	
95	38½	Pennzol	2.20	3.0	107	3310	75½	73⅝	74	−½
23⅞	14¼	PeopEn	.62	3.3	11	4161	018¾	18⅛	18⅝	
18⅞	9½	PepBy s	.08	.6	22	1575	14	13¾	13⅞	+¼
42¼	25½	PepsiCo	.68	2.0	15	3827	34⅝	33¾	34⅝	+⅛
12¾	7⅜	PerkF	1.20e	12.	13	30	10⅛	10	10⅛	+⅛
41⅛	18½	PerkEl	.60	2.2		1452	28⅝	27⅝	27¾	−½
8⅛	5⅛	Prmian	.60e	10.	13	138	6	5¾	6	+⅛
10¼	6¾	PrLP	pr1.15	14.		391	8⅝	8⅜	8⅜	
16	5¼	PeryDr				170	7½	7¼	7½	
40	14⅛	Petrie	.20	.9	15	242	22	21¼	21⅝	−⅜
21¼	15⅜	PetPar	2.08	10.	11	295	20½	20¼	20½	+¼
33½	20½	PetRs	3.18e	13.		125	25⅛	24⅝	25⅛	+⅝
18	15	PetRs	pf1.57	9.4		9	16¾	16½	16¾	+¼
2⅛	¾	Ptrinv	.22e	18.		35	1¼	1⅛	1¼	+⅛
76½	40	Pfizer	2	3.7	13	3761	55¼	53⅞	54⅝	
58	23½	PhelpD	.60	1.4	9	6061	42	40¾	41⅝	
74	37	PhlpD	pf 3	6.2		9	58½	57¼	58¼	−¼
23¾	16¾	PhilaEl	2.20	12.	8	2027	19¼	19	19⅛	
45½	34	PhE	pfA3.80	11.		z20	36⅛	36⅛	36⅛	+⅛
97	69	PhE	pfG8.75	10.		z750	84¼	84¼	84¼	
105⅜	86	PhE	pf9.50	10.		z1100	92¼	92¼	92¼	−¾
100⅝	86	PhE	pfT9.87	9.9		300	99¼	99	99¼	+⅛
13¾	11	PhE	pfR1.41	12.		20	12⅜	12¼	12¼	−⅛
13	9⅞	PhE	pfP1.33	12.		17	11¾	11½	11½	
[illegible]										

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
82	39	Wrigly	1.04a	1.3	24	172	80¼	78½	80	+1½
3	¾	Wurltch				6	⅞	⅞	⅞	
17½	7	WyleL s	.28	2.7	18	125	10⅜	10¼	10½	−⅛
30⅝	14½	Wynns	.60	2.8	45	40	21⅝	21¼	21⅝	+¼
		X Y Z								
85	50	Xerox	3	5.2	11	2462	58	56⅞	57⅝	−⅛
50⅛	49⅞	Xerox pf				16	49⅝	d49⅜	49⅝	−¼
56⅛	52⅜	Xerox	pf5.45	10.		89	52⅝	52⅜	52⅝	+⅛
34⅝	19⅛	XTRA	.64	1.9	17	341	33¾	33⅜	33⅝	
29½	19½	XTRA	pf1.94	6.8		3	28½	28½	28½	
33⅞	17½	Yorkin			10	1175	29¼	28½	29¼	+⅜
7¼	2¼	Zapata				754	3⅝	3⅜	3⅝	+⅛
37	13½	Zayre	.40	1.9	10	3749	21¾	20¾	21⅜	−½
16⅛	6¾	Zemex	.40	3.7	14	53	10⅞	10⅝	10⅞	+⅜
33⅝	10	ZenithE				1776	18⅛	17½	17⅞	−⅛
13½	2⅛	ZenLab				386	3	2¾	2⅞	+⅛
24	13½	ZenNtl	.80	4.2	9	262	19⅜	18¼	19¼	−⅛
20⅝	11⅝	Zero	.36	2.5	15	188	14¾	14⅜	14½	−½
30¾	15	Zumin s	.68	3.0	15	202	23	22½	22¾	−¼
10⅝	7⅝	Zweig	1.08e	11.		512	10	9⅞	10	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices March 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, closing prices, March 11

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 35

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar looks to trade data as pound waits for fog to clear

BY COLIN MILLHAM

THE DOLLAR and sterling were expected to drift around quietly last week, with no factors to move the currencies, ahead of the US trade figures this Thursday and the UK Budget on Tuesday.

But that is not the way it worked out, as the Bank of England stopped selling the pound, allowing it to rise through DM3.00, and the Prime Minister indicated to Parliament that the alternatives to an appreciating currency were potentially inflationary, and therefore not acceptable.

After Mr Nigel Lawson, the Chancellor, suggested a further rise might not be sustainable, dealers were left wondering whether there is complete harmony within the Government over economic policy.

Mr Neil MacKinnon, economist at Nomura Research Institute, said that although the short term prospects for the pound are strong, he expects the currency to settle back under DM3.00 in the next few months.

According to Mr MacKinnon investors in Japan are not convinced sterling is now a hard currency, still believing that economic fundamentals will soon begin to drag the pound lower. This tends to underline Mr Lawson's view, and means the authorities should find it possible to ride out this present bout of uncomfortable strength in the currency.

Sterling finished the week about 8 pfennigs higher, but traders in sterling denominated debt were generally inclined totake a defensive view ahead of the Budget.

One investment house, with a square gilt book, said there were large profits to be made this week from having bought £100m gilts or having sold the same quantity, but there were also potential large losses from getting it wrong. The only guarantee of not being on the losing end was to be square.

By the end of this week some of the fog surrounding the market should have cleared. Apart from the Budget there is a constant stream of economic news, including UK money supply and bank lending figures for February.

These will be published Friday, and are expected to be less disturbing than in recent months. Round tripping in the bill market, which caused much of the problems of rising bank lending around the turn of the year, will have unwound as the bills have matured, and there should also have been less borrowing to meet tax payments.

Bank lending in January was £5.5bn, but is expected to retreat to about £3.5bn in February, according to most City forecasts.

Morgan Grenfell's forecast of £2.8bn is on the low side, with Phillips and Drew looking for £3bn.

£ IN NEW YORK

Mar.11	Close	Previous Close
£ Spot	1.8570-1.8580	1.8465-1.8475
1 month	0.31-0.29cpm	0.31-0.29cpm
3 months	0.94-0.91pm	0.95-0.92pm
12 months	3.45-3.35pm	3.50-3.40pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Mar 11	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.3217	+2.03	+0.94	±1.5344
Danish Krone	7.85212	7.91290	+0.77	-0.32	±1.5404
German D-Mark	2.05853	2.06824	+0.47	-0.62	±1.0981
French Franc	6.90403	7.04671	+2.07	+0.98	±1.3674
Dutch Guilder	2.31943	2.32554	+0.26	-0.83	±1.5012
Irish Punt	0.768411	0.773845	+0.71	-0.38	±1.6684
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING INDEX

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

CURRENCY RATES

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

CURRENCY MOVEMENTS

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

OTHER CURRENCIES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FORWARD RATES AGAINST STERLING

[illegible]

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
104	—	50	—	624
106	—	—	—	—
108	—	—	—	—
110	1237	—	1	—
112	1039	—	3	—
114	845	—	9	—
116	655	—	19	—

Estimated volume total, Calls 3302 Puts 932
Previous day's open int. Calls 27339 Puts 17724

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
86	662	637	34	109
88	514	511	50	147
90	342	362	114	234
92	221	254	157	326
94	121	202	257	438
96	49	126	421	562
98	27	61	563	733

Estimated volume total, Calls 331 Puts 549
Previous day's open int. Calls 841 Puts 648

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Mar	Calls-settlements Apr	Puts-settlements Mar	Puts-settlements Apr
16500	1528	1778	8	73
17000	1057	1357	37	152
17500	646	989	126	284
18000	335	685	315	480
18500	144	449	624	744
19000	50	278	1050	1073
19500	14	162	1494	1457

Estimated volume total, Calls 10 Puts 1
Previous day's open int. Calls 33 Puts 97

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-settlements Mar	Calls-settlements Apr	Puts-settlements Mar	Puts-settlements Apr
170	1540	1540	0	2
175	1040	1040	0	17
180	540	589	0	84
185	40	270	0	265
190	0	92	460	587
195	0	23	960	1018
200	—	—	—	—

Estimated volume total, Calls 10 Puts 20
Previous day's open int. Calls 387 Puts 600

LIFFE EURODOLLAR OPTIONS
£1m points of 100%

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
9225	88	72	0	11
9250	63	53	0	17
9275	38	37	0	26
9300	14	23	1	37
9325	0	14	12	53
9350	0	7	37	71
9375	0	3	62	92

Estimated volume total, Calls 130 Puts 95
Previous day's open int. Calls 3539 Puts 2105

LIFFE SHORT STERLING

Strike Price	Calls-settlements Mar	Calls-settlements Jun	Puts-settlements Mar	Puts-settlements Jun
9025	72	71	0	10
9050	47	52	0	16
9075	24	36	2	25
9100	5	23	8	37
9125	1	14	29	53
9150	0	7	53	71
9175	0	3	78	92

Estimated volume total, Calls 180 Puts 0
Previous day's open int. Calls 7863 Puts 6091

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

EUROPEAN OPTIONS EXCHANGE

[illegible]

ROYAL DUTCH P	Fl 200	363	1	84	5	50	7 70	Fl 218 30
UNILEVER C	Fl 120	291	1.70 A	110	4 50	46	6	Fl 114 70
UNILEVER P	Fl 120	3	7.80	124	12	1	13	Fl 114 70

TOTAL VOLUME IN CONTRACTS . 30,602

A = Ask B = Bid C = Call P = Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	Citibank NA	9	Nat Bk. of Kuwait	9
Adam & Company	9	City Merchants Bank	9	NatWestminster	9
AAB - Allied Arab Bk	9	Clydesdale Bank	9	Northern Bank Ltd	9
Allied Irish Bank	9	Comm Bk.N.East	9	Norwich Gen Trust	9
American Exp.Bk	9	Consolidated Cred	9	PK Finans. Int(UK)	9½
Henry Ansbacher	9	Co-operative Bank	*9	Provincial Bank PLC	10
ANZ Banking Group	9	Cyprus Popular Bk	9	R. Raphael & Sons	9
Associates Cap Corp	10	Dunbar Bank PLC	9	Roxburghe G'rantee	10
Authority Bank	9	Duncan Lawrie	9	Royal Bk of Scotland	9
B & C Merchant Bank	9	Equatorial Bank plc	9	Royal Trust Bank	9
Banco de Bilbao	9	Exeter Trust Ltd	9½	Smith & Williamson Secs.	9
Bank Hapoalim	9	Financial & Gen. Sec.	9	Standard Chartered	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd.	9½	TSB	9
Bank Credit & Comm	9	● Robert Fleming & Co.	9	UDT Mortgage Exp	‡10.2
Bank of Cyprus	9	Robert Fraser & Ptnrs.	10	United Bk of Kuwait	9
Bank of Ireland	9	Girobank	9	United Mizrahi Bank	9
Bank of India	9	Grindlays Bank	9	Unity Trust Bank Plc	9
Bank of Scotland	9	● Guinness Mahon	9	Western Trust	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Westpac Bank Corp.	9
Barclays Bank	9	● Hambros Bank	9	Whiteaway Laidlaw	9½
Benchmark Bank PLC	9	Heritable & Gen Inv Bk	9	Yorkshire Bank	9
Berliner Bank AG	9	● Hill Samuel	§9		
Brit Bk of Mid East	9	C. Hoare & Co.	9		
● Brown Shipley	9	Hongkong & Shangh	9		
Business Mtge Tst.	9	Lloyds Bank	9		
CL Bank Nederland	9	Meghraj Bank Ltd	9		
Central Capital	9	Midland Bank	9		
● Charterhouse Bank	9	● Morgan Grenfell	9		
		Mount Banking Corp.	9		

● Members of the Accepting Houses Committee. * 7 day deposits 4.00% Savewise 6.66%. Top Tier-£2,500+ at 3 months' notice 8.31%. At call when £10,000+ remains deposited. ‡ Mortgage base rate. § Demand deposit 4.00%. Mortgage 9.625% - 10.%

FT - ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY MARCH 11 1988 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY MARCH 10 1988 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1987/88 High	1987/88 Low	Year ago (approx)
Australia (91)	110.00	-0.4	88.01	100.09	4.21	110.43	88.86	100.70	180.81	85.36	111.52
Austria (16)	90.86	+0.1	72.69	78.53	2.64	90.72	73.00	78.35	102.87	84.35	94.20
Belgium (48)	135.94	-2.6	108.77	117.00	4.08	139.61	112.34	120.16	139.89	94.63	115.27
Canada (126)	120.98	-0.3	96.80	109.99	2.99	120.57	97.02	109.70	141.78	98.15	127.79
Denmark (38)	121.94	+0.1	97.57	105.40	2.79	121.80	98.18	105.69	124.83	[illegible]	[illegible]
Finland (23)	121.61	+1.3	97.30	102.48	1.93	119.99	96.55	101.13	-	-	-
France (122)	85.46	-1.2	68.38	75.71	4.09	86.50	69.60	76.90	121.82	72.77	113.77
West Germany (94)	78.98	-0.5	63.19	68.21	2.71	79.38	63.88	68.72	104.93	67.78	87.01
Hong Kong (46)	100.64	+0.2	80.52	100.80	4.21	100.41	80.80	100.58	158.68	73.92	107.38
Ireland (14)	120.03	+0.0	96.03	105.11	4.20	120.02	96.57	105.59	160.22	93.50	127.65
Italy (94)	76.89	+1.9	61.52	70.75	2.73	75.45	60.71	69.70	112.11	62.99	95.89
Japan (457)	163.10	+0.1	130.49	131.29	0.53	162.94	131.11	131.93	163.67	100.00	122.86
Malaysia (36)	117.08	-0.2	93.67	114.91	3.34	117.29	94.38	115.37	193.64	93.76	128.19
Mexico (14)	152.93	+1.1	122.36	380.72	0.93	151.26	121.71	376.57	422.59	90.07	127.77
Netherland (37)	106.85	-0.4	85.49	91.07	5.03	107.30	86.34	91.63	131.41	87.70	109.22
New Zealand (25)	77.07	-0.4	61.67	60.93	5.41	77.42	62.30	61.35	138.99	64.42	91.32
Norway (24)	116.85	+2.0	93.49	100.20	3.03	114.59	92.21	98.45	185.01	95.51	120.96
Singapore (26)	110.87	-0.6	88.71	102.88	2.33	111.59	89.79	103.51	174.28	81.21	115.99
South Africa (61)	135.97	-0.6	108.79	81.44	5.17	136.78	110.06	81.91	198.09	100.00	134.61
Spain (43)	145.96	-0.6	116.78	123.90	3.39	147.15	118.41	124.69	165.41	100.00	110.90
Sweden (32)	119.82	+0.0	95.87	104.88	2.61	119.83	96.42	105.11	136.64	88.50	107.96
Switzerland (53)	85.61	-1.3	68.49	72.79	2.33	86.75	69.80	74.16	111.11	73.65	92.96
United Kingdom (327)	138.98	-0.6	111.20	111.20	4.29	139.77	112.47	112.47	162.87	99.65	127.05
USA (585)	107.99	+0.3	86.40	107.99	3.49	107.69	86.65	107.69	137.42	91.21	119.59
Europe (965)	109.38	-0.5	87.51	91.68	3.79	109.96	88.48	92.54	130.02	92.25	110.07
Pacific Basin (679)	158.54	+0.1	126.85	128.76	0.72	158.41	127.46	129.38	158.80	100.00	121.78
Euro-Pacific (1644)	138.90	+0.1	111.13	114.00	1.69	139.05	111.89	114.71	143.65	100.00	117.11
North America (711)	108.68	+0.3	86.96	108.13	3.46	108.37	87.20	107.82	137.55	91.68	120.03
Europe Ex. UK (638)	91.03	-0.5	72.83	79.41	3.32	91.48	73.61	80.01	111.97	78.89	99.57
Pacific Ex. Japan (222)	103.62	-0.2	82.91	96.44	4.17	103.83	83.55	96.77	164.03	82.92	108.64
World Ex. US (1845)	138.27	-0.1	110.63	113.64	1.76	138.41	111.37	114.32	143.38	100.00	117.70
World Ex. UK (2103)	125.36	+0.1	100.30	111.71	2.11	125.24	100.78	111.96	138.82	100.00	117.62
World Ex. So. Af. (2369)	126.49	+0.0	101.21	111.87	2.31	126.46	101.75	112.22	139.47	100.00	118.34
World Ex. Japan (1973)	109.04	+0.0	87.24	101.69	3.62	109.07	87.77	101.88	134.22	92.98	116.35
The World Index (2430)	126.56	+0.0	101.26	111.66	2.33	126.53	101.81	112.01	139.73	100.00	118.45

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).
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CONSTITUENT CHANGES:Name changes:Agence Havas to Havas (France) and ASDA-MFI to ASDA (U.K.)

MONEY MARKETS

A busy week for economists

THE STREAM of UK economic data to be published this week begins with retail sales and producer prices today. A rise in February retail sales is expected, with forecasts ranging from 0.25 p.c. to 0.8 p.c. Warburg Securities forecast is somewhat out of line, looking for a fall of 0.3 p.c.

There is a fair degree of unanimity among forecasters that output producer prices will rise 0.3 p.c., but there is a much wider range on input prices, ranging from a fall of 1.9 p.c. to a rise of 0.4 p.c.

Tomorrow's industrial production figure for January is likely to be overshadowed by other events. Once again there is reasonable agreement that the overall rise will be between 0.2 p.c. and 0.5 p.c., but here also Warburg disagrees, and expects a rise of 1.0 p.c.

Forecasts for the February public sector borrowing requirement on Wednesday range from a repayment of £500m from Greenwell, and Warburg, to a borrowing requirement of £400m from Morgan Grenfell. A flat figure would not come as a great surprise to the market.

February unemployment, when published Thursday, is expected to show a fall of 40,000 to 50,000, compared with 50,800 in January.

Of greater interest to the market will be the underlying year-on-year rise in average earnings in January, announced at the same time. This is widely expected to remain at 8½ p.c., but Phillips and Drew forecasts a rise to 8¾ p.c.

UK clearing bank base lending rate 9 per cent from February 2

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

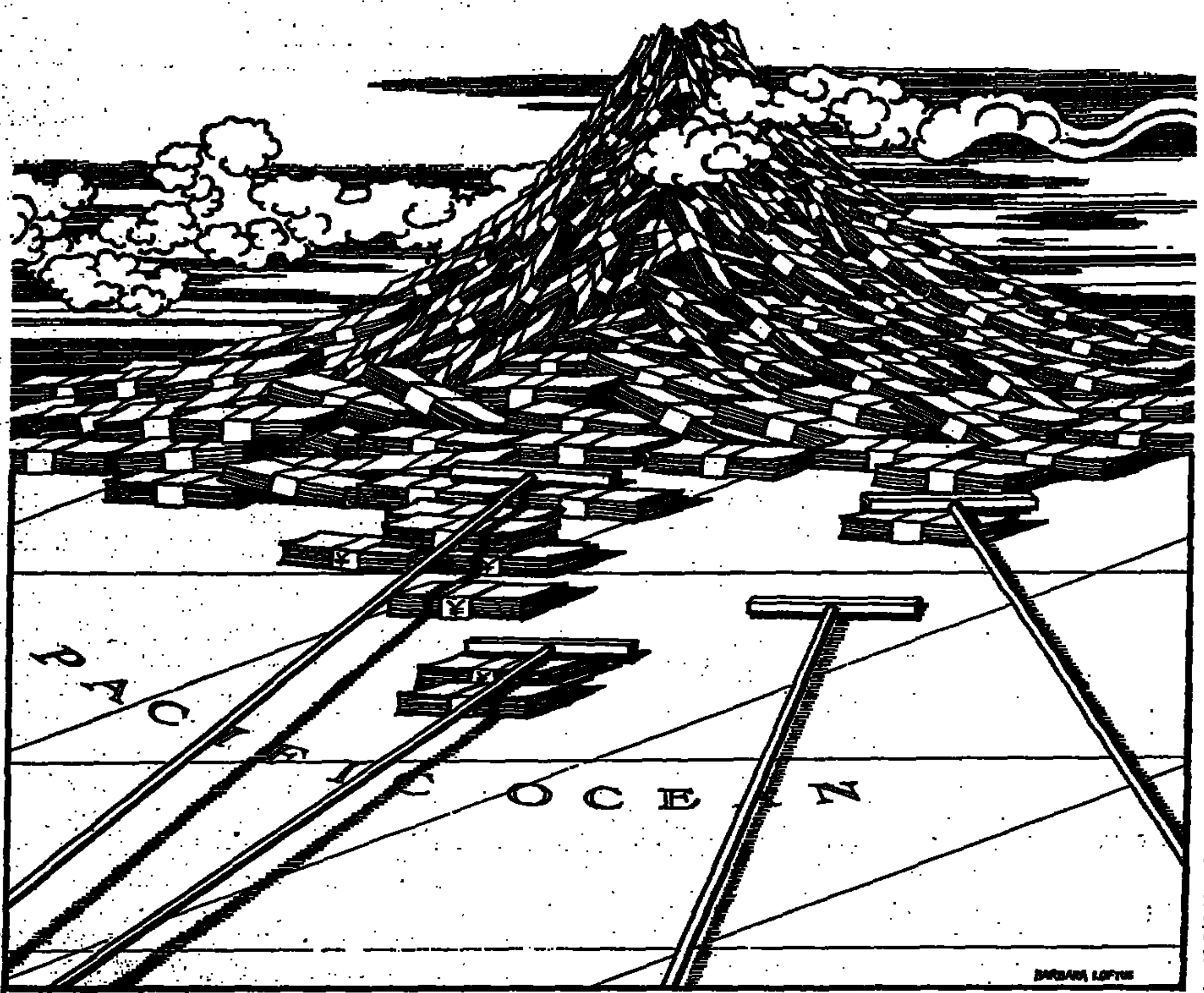
[illegible]

SECTION III

FINANCIAL TIMES SURVEY

The crash proved the strength of Japan's financial institutions, which now see new opportunities at home where they are continuing to press for liberalisation. In this climate, writes **Stefan Wagstyl**, the legal barrier between banks and securities companies is coming under pressure.

Time to play at home



Tokyo Capital Markets

CONTENTS

AFTER THREE years of rapid expansion overseas, Japanese financial companies are concentrating their energies at home.

Competitors in London and New York, having seen the relentless rise of Japanese banks and securities companies to the top of world markets, may feel their rivals are no less determined than before. But senior Japanese managers insist that they have changed tack – for a combination of reasons.

The most obvious is the impact of the October plunge in share prices, which persuaded financial companies in Tokyo, as in New York and London, that domestic markets were safest.

But even before Black Monday, Japanese companies were beginning to feel that they had to consolidate their foreign operations, and make sure that their huge expansion in assets was not being made at the expense of profits.

Moreover, there is a growing belief that liberalisation in the domestic market was creating unprecedented opportunities which should not be missed.

Fears that the turmoil in world financial markets might reduce the speed of deregulation have proved groundless. Indeed, the fact that the Tokyo stock market fell less sharply and recovered more quickly than stock markets elsewhere only served to reinforce Japanese companies' faith in the resilience of their financial system. Japanese financial companies are not turning their backs on world markets. They cannot – if only because continuing, though declining, current account surpluses mean that Japan will have huge amounts of capital available for investment abroad. Last year, overseas portfolio investment totalled $90bn, down on the $100bn of 1986, as a result of Black Monday, but far ahead of the $54bn recorded in 1985.

Japanese companies plan to maintain leading positions in markets such as Eurobonds, where Japanese groups accounted for four of the top five lead underwriters last year. In some specialised fields they even intend to expand – for example, in mergers and acquisitions business, where they hope to serve the growing desire of Japanese companies to buy foreign companies.

Moreover, where slight retreats are planned, they will be from very high starting points. Japanese banks, for example, accounted for nearly two thirds of new international lending to non-bank borrowers in the year to September, according to the Bank for International Settlements. But there is a clear shift in emphasis in favour of the domestic market in the strategies of the largest securities companies and the banks.

For the Big Four stockbrokers it is largely a matter of pausing for breath after three years of growth in assets and profits, which last year made Nomura Securities Japan's most profitable company with a pre-tax return of Y541bn.

For the banks, the issues are more serious. They are concerned that they may have expanded assets – overtaking US banks in size – at the expense of profitability. An agreement by central banks last autumn to support increased standards of capital adequacy for banks shocked some Japanese bankers. Mr Mamoru Sakai, president of Long-Term Credit Bank, says: "I think expansion will slow down. We have to build quality."

To achieve that goal, both banks and securities companies believe they have to ensure they are as well placed as possible to take advantage of the bewildering range of changes in Tokyo.

Since the beginning of last year, these have included further deregulation of interest rates on deposits; additional easing of restrictions on foreign companies, including the admission of 16 more overseas-owned brokers to the Tokyo Stock Exchange; the entry of banks as brokers to the government bond market; and the launch in November of a commercial paper market.

These measures will at least be matched in significance by reforms planned for this year. Among them are the abolition of tax-breaks on small savings accounts, which could transform personal savings habits, and the creation of a market in a wide range of futures and options.

The reform of old markets and the establishment of new ones is putting irresistible pressure on the whole post-war structure of the Japanese financial community. One sea-change has already occurred: the admission of foreigners to markets where they were previously forbidden. Now the second is underway: the dismantling of barriers that divide Japanese companies into different market segments.

The key issue under debate is the separation of banks from securities companies. The banks, arguing that the worldwide trend towards securitisation threatens their livelihood, want more access to the securities market. The stockbroking companies, which have made huge profits in recent years, are defending their lucrative territory passionately.

The legal barrier – Article 65 of the Securities and Exchange Act, which is closely modelled on the American Glass-Steagall Act – comes under increased pressure almost every day. The banks, with tacit approval from the Ministry of Finance, operate overseas securities subsidiaries (some of which have unofficial representative offices in Japan). They have also tightened links with medium-sized Tokyo securities companies. Meanwhile, the Big Four stockbrokers have opened banking subsidiaries in London.

The Japanese Ministry of Finance is willing to let companies test the limits of the law in this way, so that change, when it comes, is as gradual and as unexpected as possible. It likes policy to reflect the custom and practice of the market. In this respect Japanese financial regulation has much more in common with the City of London – especially before Big Bang – than it has with New York.

The ministry says that the future of Article 65 is undecided. Nevertheless an influential advisory committee to the Finance Minister published a report in December that was critical of the separation of securities and banking.

"The Glass-Steagall Act . . . was established in the light of the critical condition of financial institutions at the time of the Great Panic in the 1930s. It is a big question whether the conditions at the time of the establishment of this act are still meaningful today," it said.

After Article 65, the finance ministry's greatest regulatory headache is the future of the Post Office, which holds Y127 trillion (million million) on deposit, one third of Japanese personal savings. Tax-breaks on these funds are to be abolished next months, but a host of other issues remain unresolved in fierce arguments between the Finance Ministry and the Post Office. Chief among them is that the ministry wants to reduce some of the Post Office's cost advantages over banks – including freedom from paying taxes, dividends to shareholders or stamp duty.

Meanwhile, banks, life insurance companies and stockbrokers are bombarding householders with advertising. While nobody expects investors' funds to leave the Post Office overnight, the tax change seems likely to prompt unprecedented competition for personal savings.

A discussion of the progress of liberalisation should not obscure the fact that, in important respects, Tokyo is likely to remain the most restrictive of the three largest financial centres for some years to come. The rules of the corporate bond market, for example, drive companies to raise the bulk of their bond funds, including yen, overseas. Overseas corporate bond issues last year exceeded $37bn, a 58 per cent increase on 1986.

Also, deregulation has so far had little impact on the essence of financial management in Tokyo – the cosy agreement between officials, brokers, bankers and investing institutions. These exist elsewhere, of course, but seem to be at their strongest in Japan. After Black Monday, the Finance Ministry intervened in the stock market – on one occasion calling together senior traders of the large securities companies, and on another suggesting to institutional fund managers that they should not sell their holdings.

More dramatically, in January the ministry changed the accounting rules governing Tokkin funds – a popular investment fund – to discourage investors from withdrawing their money. The market responded with a strong rally. A Finance Ministry official said such measures were perfectly justified. The stock market was weak, a further decline might have hit confidence in the economy in Japan and elsewhere and led to recession. It was the ministry's duty to react as it had, said the official. Foreign companies in Tokyo find it frustrating to compete in markets where the unspoken assumptions are as important as the written rules. Nevertheless, with the help of their governments they have mostly succeeded in overcoming initial obstacles to entry. This year 16 overseas-owned stockbrokers are joining the six already trading on the Tokyo Stock Exchange.

This still leaves some unsuccessful applicants, including BZW, Barclays Bank's securities subsidiary. Also, foreigners are still largely excluded from potentially profitable fields such as pension fund management and lead-managing government bond issues. However, in most firms attention is now focused not on regulatory barriers, but on the formidable Japanese companies.

It is possible for foreigners to make headway in Japanese financial markets, but it is difficult, especially as many have only recently arrived in Japan.

The Ministry of Finance

Bureaucrats in slippers call the tune

THE MINISTRY of Finance is bursting with people and paper. As its role has grown, with Tokyo's expansion as a financial centre, so its offices have become more crowded.

Officials sit behind mounds of files, letters and black reference books. Year by year the metal desks have been pushed closer together, until it is hardly possible to squeeze between them.

It looks more like an overworked district tax office than the heart of financial power. But the impression is deceptive. For these men, often sitting with their their sleeves rolled up and slippers on their feet, are in a position to lay down the law to the most powerful blue-suited banker in Japan.

The Ministry of Finance (MOF) vies with the Ministry of International Trade and Industry for the title of most important ministry. The two compete for the best graduates – who still prefer the kudos of public service to the higher salaries of banks and securities companies.

In Japan, bureaucracy has more political power than in the UK or the US. It works closely with the leadership of the Liberal Democratic Party, which has been in office since the war. There are close parallels between the two institutions – both are led by men who have spent all or virtually all their lives in the same institution; both believe in the value of the consensus; and both are convinced that they embody the national interest.

The MOF's links with the LDP are particularly tight, because several Diet (parliament) members are former ministry officials – including Mr Kiichi Miyazawa, the Finance Minister, and Mr Takeo Fukuda, a former prime minister.

With some 20 years' experience in government economic and financial portfolios, Mr Miyazawa has unusually strong influence over his ministry. Nevertheless, it is the two vice ministers, Mr Yoshihiko Yoshino and Mr Toyoo Gyohten, both civil servants, who in practice makes many decisions which, in the UK, would be referred to ministers.

Mr Yoshino, the administrative vice minister, has the greater role, presiding over the main internal bureaux – securities, banking, budget and tax – while Mr Gyohten, is responsible for Japan's rapidly growing international financial relations.

The MOF's importance *vis-a-vis* other ministries stems in the first instance from its control over the budget. As with the UK Treasury, the power of the purse strings gives the ministry a pre-eminent right to influence policy across the board.

As a result, the budget bureau is the most powerful within the MOF, and its director usually goes on to become the administrative vice-minister. As in other ministries, the new vice-minister's peers then mostly resign to move to senior jobs at commercial banks. This process reinforces the position of the vice-minister as potential rivals inside the ministry are transformed into valuable contacts outside.

The tax bureau (responsible for taxation policy), the finance bureau (which oversees government bond issues) and the customs and tariffs bureau all work closely with the budget bureau. The tax bureau co-operates with the National Tax Administration, the semi-independent tax collection office.

The banking bureau is the ministry's central channel of influence over the commercial financial markets. Its authority over the economy has diminished since the height of Japan's post-war high-speed growth era, when the bureau directed the flows of funds from depositors to the city (commercial) banks, and from them to the long-term credit banks which lent to industry.

Cash-rich Japanese companies now have lower borrowing needs and, thanks to the steady liberalisation of markets, a wider range of fund-raising choices. But influence over the banks remains strong – late last year, the ministry, acting through the Bank of Japan, the central bank, successfully pressed the city banks to reduce speculative real estate loans.

The budget bureau is the most powerful within the MOF

To do this, the central bank used the quarterly meetings with city banks at which lending plans for the following three months are discussed – so-called "window guidance". Bankers like to play down the significance of these talks. But Mr Akio Mikuni, president of Mikuni, a credit rating agency, says: "In practice, unless I am mistaken, window guidance is still important."

Such private meetings between bankers and officials are at the heart of financial government in Japan. In the words of an MOF official, the system has much more in common with the way the City of London was regulated before Big Bang than with public US-style supervision.

Only the extent of control is far greater than in the UK. Mr Mikuni says MOF rules even cover the size of signs on bank branches. He adds: "Little that matters is written down and codified. The regulations belong to an oral tradition as interpreted by the *kacho* [divisional manager]."

If the banking bureau's position has waned slightly in the last few years, that of the securities bureau has grown enormously, in line with the expansion of Tokyo's securities markets. The bureau, which oversees the stock market and the companies that operate in it, has been the number one port of call for companies seeking securities licences in Tokyo – including 44 foreign companies.

Within the MOF, the securities bureau is frequently at loggerheads with the banking bureau. Debate over liberalisation pits the two bureaux against each other. A senior securities bureau official says: "We are defending Article 65 (which restricts banks' securities activities).

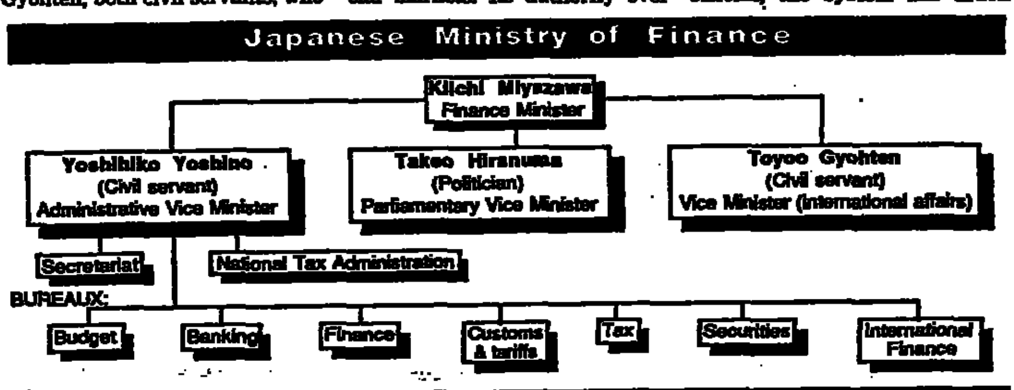
The banks are on the offensive. At this level, officials see their job as pleading their side's case within government – so that all voices can be heard before consensus within the ministry is reached on a new measure.

But if the bureaux are frequently divided by the bureaux, they do try to present a united front abroad. The MOF's international prestige does not yet rival that of the Ministry of Trade and Industry, but it has grown greatly in the last five years. Tokyo's growth as an international capital market, fuelled by Japan's rise to become the world's biggest creditor nation, has put MOF officials at the centre of the financial stage.

One official at the International Finance Bureau now travels so often that he is nicknamed "the non-resident". Japanese officials still feel they have things to learn from their US and European counterparts – especially in the field of regulation. New laws on insider trading were drafted after a close study of American legislation, for example.

However, this willingness to examine western procedures should not be taken as a sign that the ministry is necessarily becoming more western in its thinking. Even if its written regulations begin to look similar, the unspoken assumptions behind them may still be quite different.

Stefan Wagstyl



City banks

Securities are the target

YEARS OF rapid expansion, compounded by the rise of the yen, catapulted Japanese banks to the top of the world banking tables. But today Tokyo bankers feel they went too far too quickly in increasing their loan books, especially overseas, without enough concern for profitability.

"We need to reposition our assets so that higher profitability can be expected," says Mr Yoichiro Kato, a director and general manager of Dai-Ichi Kangyo Bank. "I believe the rate of asset growth must be suppressed."

The immediate reason for the banks' concern is the forthcoming international agreement on raising capital adequacy standards for banks, on lines put forward by the Cooke Committee of the Bank for International Settlements. Under the proposed standards, banks will have to raise their ratio of capital to assets to 8 per cent by 1992. Nomura Securities, the stockbroker, estimates that leading Japanese banks now have ratios of about 5-6 per cent (including in the capital figure 45 per cent of unrealised gains on equity holdings, as agreed by the Cooke Committee).

However, even before the BIS's proposals were made late last year, Japanese banks were increasingly concerned about the impact on profitability of their rates of asset growth, running at over 15 per cent for the 13 leading city (commercial) banks in the financial year to March 1987.

Japanese banks' difficulties are nothing like the problems faced by many American commercial banks. But Tokyo bankers too are having to wrestle with the issue of non-performing loans made to developing countries.

There are also fears that loans to finance the recent boom in Tokyo property development may have led one or two smaller institutions to over-extend themselves. Not for nothing has the Ministry of Finance pressed banks to reduce new property loans – apparently with some success in the last three months. But the banks' underlying concerns are wider than the issues of Third World debt and speculative real estate (or stock market) lending.

The partial deregulation of Japanese interest rates has eaten into margins on the city banks' core domestic business. City banks now have to pay market rates for about a third of their total deposits – against 9 per cent in 1980. At the same time, large corporate borrowers with access to Euroyen markets beyond the reach of Japanese regulators have been able to squeeze increasingly fine terms from their banks.

So the city banks are putting a new emphasis on loans to small businesses, which now account for 60 per cent of all domestic lending. Competition with small banks has increased as a result.

Moreover, the city banks have had to learn to pay more attention to managing the overall spread between their deposits and their assets – paying more attention to matching rates and maturities. This costs money – for training, establishing tighter management controls, and installing computer systems.

As a result, loan books will be pruned, especially overseas where profits on non-yen loans are particularly low and Japanese banks are often accused of squeezing out local competition.

Apart from improving returns from traditional banking, Japanese banks – including long-term credit banks as well as the city banks – are putting a great emphasis on expanding new sources of profits. Several have hopes of specialised services, such as aircraft leasing and money management for corporate clients.

However, the focus of most banks' thoughts is expanding further into securities. They fear that the continuing securitisation of lending is permanently reducing their business scope.

Mr Hirotaka Kohno, a director of Fuji Bank, says: "We must be in a position to serve our customers. We are not talking about the egos of city banks, but about sound and profitable banking."

This argument explains why Japanese banks are pressing so strongly for the reform of Article 65 of the Securities and Exchange Law – the US-inspired measure which keeps banks out of the securities business on the lines of the Glass-Steagall legislation.

The banks believe that they are steadily winning over the Ministry of Finance to their point of view. They have won important concessions already: last year they were allowed to deal in Japanese Government bonds on their own accounts; this year they will be permitted to broke them to clients.

Moreover, the banks argue that a recent report by the ministry's Financial Systems Research Committee, which reviewed the segmentation of financial institutions, is implicitly in favour of greater liberalisation.

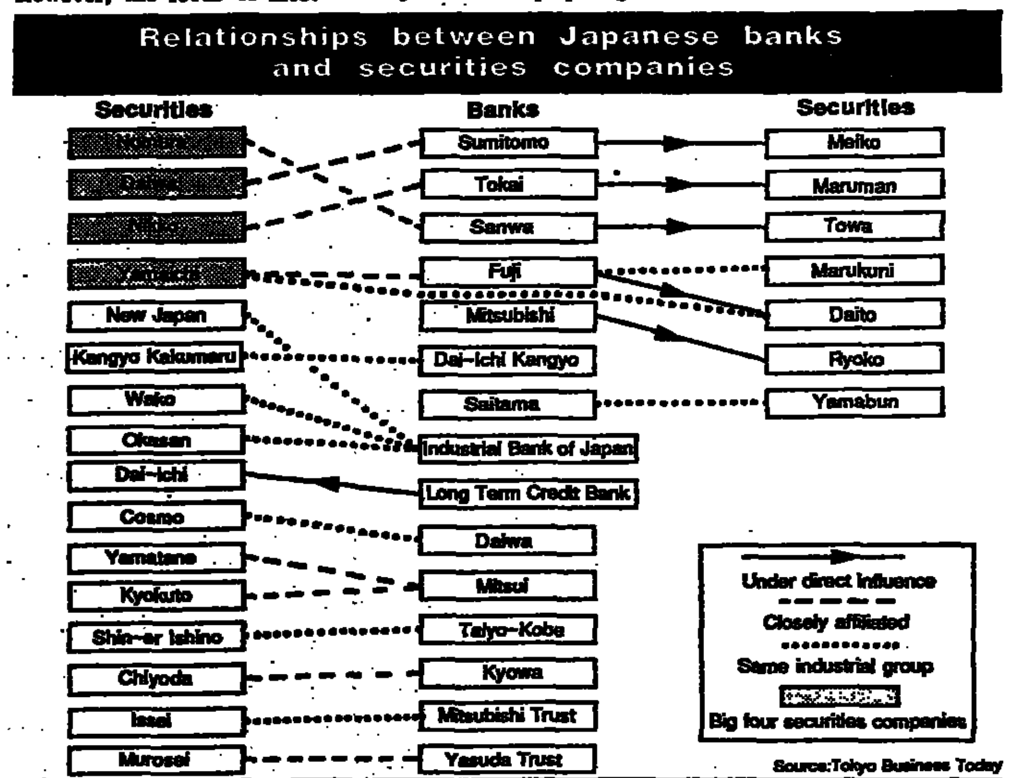
They have been preparing for change for a long time. Virtually all leading Japanese banks have links with domestic securities companies. They are limited by law to holding a maximum 5 per cent stake in a such an affiliate. Nevertheless, links are close, with senior managers of the securities companies frequently coming from the banks. At Dai-Ichi Securities, for example, the president and chairman are ex-Long-Term Credit Bank employees.

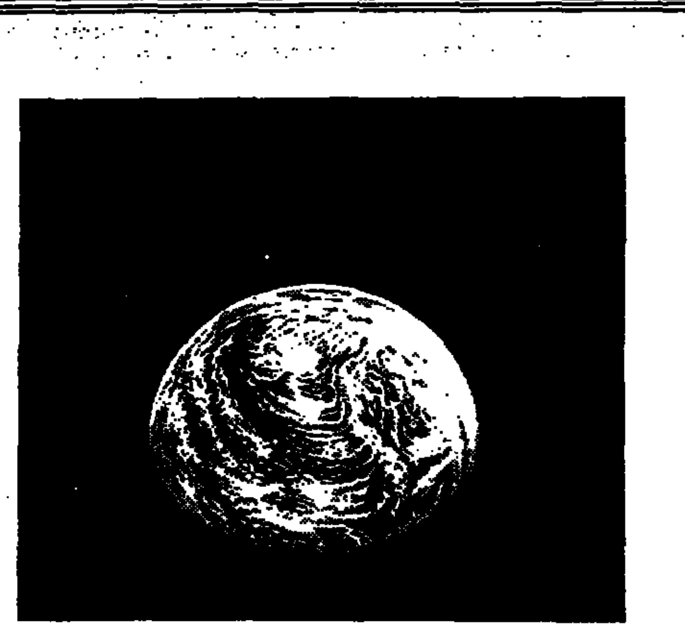
However, the banks have made much larger investments in securities trading overseas. More than 50 Japanese banks now have securities subsidiaries abroad. Industrial Bank of Japan, for example, is one of the biggest managing underwriters in the Eurobond market.

Sumitomo Bank's investment in Goldman Sachs, the US investment house, dwarfs securities acquisitions made by other banks; but there have been several deals, including Long-Term Credit Bank's purchase of Aubrey G Lanston, a specialist New York bond trading company.

The October plunge in stock markets may have made banks more cautious about securities, but it has not changed their strategies.

Stefan Wagstyl





The long-term credit banks are seeking new markets

Restrictions make post-war revivalists look overseas

JAPAN'S THREE long-term credit banks are busy seeking new markets in which to wield their enormous financial power – and the prospect is causing alarm among their traditional adversaries, the securities companies.

The three long-term institutions, Industrial Bank of Japan (IBJ), Long Term Credit Bank (LTCB) and Nippon Credit Bank, are in the forefront of those who would like to dismantle long-standing rules that make it impossible for domestic banks to underwrite corporate securities in Japan.

They want to begin issuing corporate securities, primarily because the long-term banks' traditional corporate customers are fast outgrowing their old dependence on long-term borrowing.

The three made their names funding Japan's post-war industrial recovery. Now, that task is less important, as most of their corporate customers are either awash with cash or turning away from bank borrowing to the securities market for funds. Others, in mature industries such as steel and shipbuilding, are in the throes of restructuring.

As a result, the long-term credit banks feel themselves under unprecedented pressure to seek new markets for the huge assets of Y58 trillion (million million) at their disposal.

Yet Japan's segmented financial market enforces tight restrictions on their scope to diversify. They are allowed to participate in underwriting government bonds on the domestic market, but are denied the privilege of underwriting corporate bonds in Japan. Instead, the long-term credit banks can act as advisers – so-called commission underwriting.

This, they point out, only adds an extra layer of professional service and expense to corporate issues, thereby eroding the competitiveness of the domestic securities market against centres like London, where there are no such distinctions between banks.

"This is stifling the corporate bond market and means you get the illogical situation where Japanese companies go to London to borrow money deposited there by Japanese investors. But I can't see the Japanese securities companies giving up their privileges without some massive rewards," says one diplomat.

Despite these restrictions, the long-term banks have not been slow to make full use of their considerable resources to get footholds in new, mainly foreign, markets. Their post-war expansion means they have uniquely good contacts with domestic industry. IBJ, the largest of the trio, claims 90 per cent of the country's top 200 companies among its customers. With very few branches, compared with the city banks, which specialise in short-term lending, the trio has the extra advantage of relatively low overheads.

Since the long-term banks are forbidden to raise funds from retail deposits, their main source of capital comes from issuing long-term (three year-plus) bonds, where they have a virtual monopoly of the private debenture market. IBJ alone issued bonds worth some Y7 trillion last year. "That makes us the largest issuer of bonds after the Government," says Mr Ideo Ishihara, IBJ's managing director.

Not surprisingly, the main diversification has been to take advantage of less tightly-restricted centres overseas. IBJ was the 11th largest player in the Eurobond market last year, with 42 issues totalling $4.25bn; followed by LTCB in 14th place, with 18 issues totalling $2.18bn.

That is still a long way behind what Japanese securities companies have managed to achieve, "but we think it is a good performance, given that we are not competing on equal terms," says Mr Ishihara. "We are forbidden to compete where we are strongest," he adds.

IBJ has underwriting subsidiaries in the UK, West Germany and Switzerland, and was the first among its Japanese competitors to break into the US, with the $140m acquisition three years ago of J Henry Schroder Bank & Trust, a New York investment house, now renamed IBJ Schroder Bank.

A year later, it took over Aubrey G Lanston, the US primary bond dealer. Lanston has opened a representative office in Tokyo, and the group is now planning to open a branch of IBJ International – the London subsidiary – in the Japanese city, further undermining the separation between the banking and securities industries.

LTCB has been a little slower. Its attempt to follow IBJ's US example, by seeking to buy its own US bond dealer, Greenwich Securities, ran into objections from the US Federal Reserve Board. The bank is on the point of resubmitting its almost $200m application to the Fed and has high hopes that the deal will go through this time.

"Unless we have a strong stake in the US treasury bond market, we cannot hope to be a major player in the international securities markets as a whole. It is no longer sufficient for us to be in the lending market," says Mr Katsunobu Onogi, general manager of planning and administration for the LTCB.

Just as their traditional lending markets are losing impetus in their own right, the long-term institutions are coming under new pressure from the city banks. Even though the latter are effectively denied direct access to long-term funds on the domestic markets, they are beginning to encroach on the long-term lending business. To do so they are using a range of new financial instruments, like interest rate swaps.

The long-term institutions are responding in kind by diversifying into short-term lending, and even increasing their small presence in private banking for rich individuals. Only recently, IBJ announced plans to increase loans to the wealthy as part of its three-year diversification programme.

"Of course we like to defend our monopoly in long-term lending, but we realise that the trend in financial markets is towards ending these demarcations," says Mr Ishihara. Yet the extent to which city the city banks and long-term institutions will meet head-on is limited by their natural specialisation. The short-term lenders' average loan is roughly Y100m, a long way below the long-term credit banks' Y300m average.

Another big concern for these internationally ambitious institutions is how they are to comply with the Bank for International Settlements' rules on capital adequacy. The impressive growth of their loan portfolios – not always matched by growth in their own capital at home – means they have a struggle on their hands to meet BIS standards on capital ratios, a problem faced by all Japanese banks.


IBJ's Ideo Ishihara

The BIS has given the long-term banks a partial let-out by allowing them to capitalise 45 per cent of their huge hidden reserves up to the full amount of their stated capital. This matters to a bank like IBJ, which reckons that the market value of its bonds and equities is seven times their book value, a legacy of investments often made decades ago in some of its biggest corporate clients.

"We are not completely satisfied," says Mr Ishihara. "It means we either have to slow down the increase in our balance sheet or go to the market to increase our equity.

LTCB's Mr Onogi has no doubts about his response. He says: "This means we have to to be very cautious about increasing our assets. We will be trying to increase our fee income, but we will also have to come to the market to increase our own capital, as early as possible and by as much as possible."

William Dawkins

The Post Office

Tax blow may lift spending

JAPAN'S POSTAL Savings Bureau (PSB), the largest retail deposit taking-institution in the world, is bracing itself for a blast of new and unwelcome competition.

From April 1, this government-controlled body will no longer be able to offer tax-free interest on small deposits, so ending a privilege it has enjoyed since its formation in 1875 and which has enabled the PSB to capture around a third of Japan's household savings, estimated by the Ministry of Finance to total Y545 trillion (million million) at the end of 1986.

The move is being watched with vulture-like eagerness by foreign and domestic private banks, in the hope that they will boost their share of the Y286 trillion – not far short of the nation's entire gross national product – locked up in tax-free savings deposits.

It is unlikely that the PSB's dominance will be dismantled fast, since 90 per cent of its funds are in 10-year deposits with fixed interest rates guaranteed by the Government. But those savings are now open, for the first time, to the most competitive bidder, suggesting that there could at least be a sharp slowdown in the rate of growth of postal savings.

"Obviously it means that people will now be looking to do other things with their money," says Mr Andrew Smithers, senior director of SG Warburg Securities Japan.

The abolition of the so-called "maruyu" tax-exempt savings system aims to produce a "level playing field" for institutions competing for small savings. It could even be a precursor to full or partial privatisation of the PSB – which would create the world's largest private retail bank – say Finance Ministry officials. But any firm plans are likely to be years rather than months away, they emphasise.

For any prospect of floating the PSB would be fought fiercely by the post office's bureaucratic masters at the Ministry of Posts and Telecommunications. The ministry has on its side the role that post office savings play as the main source of funds for public works projects, and would hate to lose this immense power to the Finance Ministry.

Meanwhile, the most immedi-

Continued on page 4

The securities companies

Optimism on home front

THE BIG Four Japanese securities companies are pausing for breath in the extension of their overseas operations and concentrating their efforts on expansion at home.

After three years of rapid expansion abroad, the houses were reviewing their growth in New York and London even before the crash. But they are as convinced as ever that the continued deregulation of Japanese financial markets justifies investing more in Tokyo.

Discrepancy between profitability in Japan and overseas was glaringly apparent well before the plunge in stock market prices. The Big Four companies – Nomura, Daiwa, Nikko and Yamaichi – all revealed signs of weak performance in their foreign operations in their results to the end of September.

Nomura's consolidated pre-tax profit rose 26 per cent to Y540.9bn, while overseas profits edged up just 1 per cent to Y38.5bn. Nikko's US profits were nearly halved by increased staff costs; Yamaichi's New York office made a loss.

It was therefore no surprise that, after the plunge in stock market prices, the companies pruned their New York offices. Nomura sacked 35 out of 600 people in New York, Daiwa cut numbers gradually by 30 from a peak of 430.

At Nikko, Mr Yasuo Kanzaki, executive vice president, says the company will probably take the chance to reshuffle staff in New York, replacing some people with new recruits but leaving the total unchanged at 300.

However, all the companies remain committed to operating a full-scale international operation. Mr Kanzaki says Nikko will be more selective than before. In the US, for example, the company will continue to deal in US Government bonds and in equities, but it will not expand into over-the-counter stocks and probably not into corporate bonds – at least, not in the near future.

At Daiwa, Mr Koichi Kimura, managing director of the international division, says his company too will be selective. There is, for example, no plan to reduce operations in Asia. Meanwhile, at home Daiwa, like the rest of the Big Four, is keeping up recruitment – adding 300 men graduates to its staff of 8,500.

These people will have to work harder in 1988 than last year to earn their keep. Volume on the Tokyo Stock Exchange slumped immediately after the October crash to its lowest level for two years. While it has since recovered, securities companies do not expect much improvement in profits this year, given that commission accounts for some 80 per cent of total income.

As a result, the companies are as determined as ever that fixed commissions (abolished in London and New York) will not disappear in Tokyo. A senior executive at Yamaichi says: "Fixed commissions are very important to the stability of the market."

If the immediate future is not especially bright, the companies are very optimistic about the medium and long-term outlook. Underlying these hopes is the belief that Japanese people will continue to save a high proportion of their income – some 16 per cent – and so individuals and institutions will need to expand their recourse to securities markets. Moreover, the steady securitisation of corporate debt – at the rate of about 1 per cent a year, or Y5.6 trillion (million million) – is expected to provide the demand for funds.

Not surprisingly, the securities companies passionately defend Article 65 of the Securities Exchange Law, which keeps banks out of the securities business. "To keep Article 65 is a most important policy for Nomura," says a senior Nomura executive.

It is the barrier of Article 65 which has allowed the securities companies to expand profits so greatly in the past five years. At the same time they have invested heavily in computerisation and training staff in new products.

One potentially lucrative new development will be the expected launch later this year of a fully-fledged futures and options market in Tokyo. While both banks and securities companies will be restricted in the range of instruments they can broke and trade, each group will have ample opportunity to offer new products to investors.

Securities companies also have high hopes of the retail market. The abolition in April of tax-breaks on savings at the Post Office – one third of individuals' total savings – has stimulated great competition among financial institutions.

The securities companies have prepared special investment packages, which are already being vigorously advertised, for private investors. Nikko, for example, has launched "Home One", a computerised stock buying and selling system for private investors.

Apart from broking, the big four are rapidly developing fund management operations, competing for savings with life companies and trust banks. Nomura is expanding its custody assets, now Y50 trillion, at the rate of Y10 trillion a year. Daiwa plans to raise its total from Y37 trillion last September to Y43 trillion this year.

Beyond the Big Four there are some 200 registered securities companies in Japan. Most are small retail operations running teams of door-to-door salesmen. Some may well be squeezed by the fall in volume since October, but many are highly-lucrative family companies. In a market where personal recommendation is valued, these brokers have an important niche, and could do well in the contest to lure private investors' funds away from the Post Office.

But some of the 18 second-tier companies which have to fight the Big Four for institutional business are in a less secure position. Several of these companies are affiliates of banks – which have to keep their shareholding below 5 per cent – and will presumably be supported through any strains.

However, others may find it difficult to cope with increased competition, coming after reductions in fixed commissions in the past two years.

Stefan Wagstyl

Profile: Toa Nenryo

A prudent way with non-operating gains

IT IS no secret that "zaitech", the buzzword for the sometimes controversial practice whereby industrial companies invest surplus cash aggressively in financial markets, has been on the decline since last October's stock market crash.

Certainly, it is a dirty word at Toa Nenryo, the oil refiner which finds itself among the top 10 domestic companies in terms of size of non-operating profits and has a reputation – which it does not relish – as a zaitech expert.

Officially, the group, partly owned by Exxon and Mobil, frowns on zaitech as a speculative and risky activity. "We prefer to call non-operating profits prudent treasury management," says Mr Jun Inokuchi, group treasurer. So it might appear rather a contradiction that Toa Nenryo nearly doubled its financial income in 1986 by Y6.1bn to Y11bn, representing almost a third of its Y36.6bn total net income. And all this produced by just 30 financial management staff out of the group's total payroll of 2,300, a figure which elicits an ironic smile from Mr Inokuchi.

Like many Japanese companies, Toa Nenryo has been left with an enormous surplus cash pile – Y260bn net at the latest count – in its case helped by using the appreciating yen to buy oil priced in declining dollars. It is short of domestic opportunities to invest its cash balances. Yet Toa Nenryo has been forced to tread a cautious line in its non-operating investments, if only because it has to think of the notoriously volatile demands of the refining industry.

Mr Inokuchi's brief is to ensure that the group's is kept liquid and invested with safety as the top priority. He is typical of corporate money managers' growing cautiousness over zaitech in the wake of the stock market collapse, rammed home last autumn by the crisis at Taheto Chemical Industries, a speciality chemical producer and zaitech player which had to be bailed out by its banks after wiping out its assets with Y28bn of losses on bond futures.

The result of Toa Nenryo's ultra-prudent approach to zaitech is that despite the sheer size of its non-operating gains, it reaps just a 7 per cent return on capital from its financial investments as against 12 per cent on capital invested in the business itself. "There is no way that we are going to put financial profits above the returns we get out of the business," claims Mr Inokuchi.

Despite the studied cautiousness, Toa Nenryo has a modest reputation as an innovator in financial management among its competitors. It claims to be the first Japanese oil refiner to issue commercial paper in the US, a move it took in the early 1980s to take advantage from the 1.5 per cent gap between high Japanese and low US interest rates. By the time of the second oil crisis in 1981-1982, Toa Nenryo had $600m of outstanding US debts, on which it was saving some $9m annually against the cost of borrowing the same in Japan.

Now, of course, the difference between US and Japanese interest rates has swung the other way, as has the group's cash position. "Like very many Japanese companies, we have a rich cash position, but lack opportunities for business investment. In any case, we do not view our cash balances as being available for portfolio investment. They are to be kept for future reinvestment in the company," says Mr Inokuchi.

Currently, roughly 30 per cent of Toa Nenryo's cash surplus is invested in long-term yen bonds, with 20 per cent in Eurobonds with yen swap and repurchase agreements and half in short-term bank deposits. A small proportion was held in US treasury bonds until last August, when Toa Nenryo pulled out of that market to cut currency losses.

As the longer-term deposits mature, Toa Nenryo expects the return on its financial investments to fall below 5 per cent within the next few years, not exactly a hot performance, admits Mr Inokuchi. But he adds: "Unless our economic situation changes substantially, we will continue to be invested in short-term deposits."

One practical reason for Toa Nenryo's need to keep its cash balances so liquid is the coming deregulation of the Japanese petroleum industry. The Ministry of International Trade and Industry's control over refinery output and the number of petrol service stations permitted to operate is to be phased out by the end of March 1989, a move which Toa Nenryo expects will increase Japanese petroleum sales considerably, while at the same time reducing profit margins. "That means we will have to invest that much more in production facilities, which will accordingly make demands on our cash," says Mr Inokuchi.

Toa Nenryo's financial returns are expected to decline by Y1.3bn to Y9.7bn for the year to last December, largely because of a decline in cash balances as the group steps up capital investment ahead of the relaxation of government controls on petroleum production. For the time being, its zaitech days look as if they are on the way out.

William Dawkins

Profile: Dai-Ichi Mutual Life

Europe viewed with caution in dilemma of overseas markets

SUCCESS IS a mixed blessing for Dai-Ichi Mutual Life, Japan's second largest life insurance company.

Japan's savings are flooding into the group's coffers at an unprecedented rate, presenting Dai-Ichi with a few dilemmas over just how and where to invest the cash to continue producing the almost 7.4 per cent return on assets that puts it among the industry's hottest performers.

Last autumn's stock market shock and huge currency losses from the dollar's decline have made Dai-Ichi justly cautious about investing overseas. Yet Japan's low interest rates and the "limited number of satisfactory investment opportunities" in the country means the company must be committed to "making additional use of overseas investments in the attainment of good returns," admits the group's 1987 annual report.

Dai-Ichi's total assets rose by 24.1 per cent from Y8.3 trillion (million million) to Y10.3 trillion ($70bn) in the year to the end of last March. This puts it second only to Nippon Life – with its assets of more than $100bn – among Japan's 29 insurance companies, and provides yet another illustration of the growing power of the country's financial institutions.

Dai-Ichi's performance was partly helped by the yen's rapid appreciation against the US dollar, but it is also a reflection of the increasing affluence of Japanese savers. Another factor, likely to be more dominant this year, is a shift of savings away from post office accounts, in anticipation of the scrapping of tax relief on post office savings next month.

The current break-up of Dai-Ichi's assets shows roughly 37 per cent invested in domestic and foreign loans, 22 per cent in equities, 20 per cent in bonds, 8 per cent in real estate, with the rest in an assortment of other types of vehicle. An important theme in Dai-Ichi's recent strategy has been to diversify out of the US dollar and US bonds.

North American bonds now account for around half of its bond portfolio, down from 80 per cent two years ago, since when Dai-Ichi has shouldered a massive Y200bn currency loss on the dollar's decline. "Our forecasts suggest the dollar has approached the bottom, so we won't suffer too much more," says Mr Yoshiya Takahashi, group vice president for investment planning.

The problem is what overseas markets to turn to beyond the US. Europe seems an obvious choice, but Dai-Ichi is cautious, explains Mr Takahashi. "The problem is that marketability is insufficient for us. If we want to buy D-Mark bonds, for instance, we often find that the market automatically goes up just as soon as we try to move in," he says.

So far, Dai-Ichi has more than made up for those dollar currency losses by gains from domestic securities, where it has been greatly helped by Japan's introduction three years ago of so-called Tokkin funds. These securities trust funds allow institutional investors to convert capital gains into income. This matters to Dai-Ichi, because Japanese insurance companies are allowed to distribute only income to investors.

Dai-Ichi's domestic securities portfolio has a book value of Y1.8 trillion, representing more than 1 per cent of the Tokyo Stock Exchange's total capitalisation; but it is generally estimated to have a market value of well over twice that, a legacy of large holdings, up to 30 years old, in giants like Honda and Toyota. "The Tokkin funds have enabled us to realise a huge hidden profit and shift our stance from seeking just income returns to a more balanced total return," says Mr Takahashi.

All the same, he is the first to admit that Dai-Ichi's new domestic investment opportunities are distinctly limited. The same is true of the scope for lending in Japan. "There just isn't the demand from domestic corporations to borrow from us," admits Mr Takahashi.

Apart from anything else, the group's equity portfolio is grossly imbalanced in favour of the domestic market, with only 5 per cent of the total invested in overseas securities.

For obvious reasons, achieving foreign exposure in real estate is less of a problem. Only last October, the group paid $700m for Citicorp's head office in Manhattan, the largest foreign property deal in its 85-year history.

Five years from now, Dai-Ichi plans to increase its foreign securities holdings to 15 per cent of the total, and lift foreign property from 10 per cent to one-third of the total foreign estate portfolio.

Dai-Ichi is unlikely, however, to follow the route chosen by Nippon Life, which last year created a stir by buying a 30 per cent stake in Shearson Lehman Brothers, the investment banking subsidiary of American Express. Since then, Dai-Ichi has been courted unsuccessfully by 10 US and British investment banks looking for a link-up with a rich Japanese partner and hoping to nudge Dai-Ichi into following Nippon's example.

"We thought seriously about buying an investment bank, but decided that it was in our interests to remain a global scale institutional investor, rather than getting in between buyers and sellers. We want to remain buyers so that we can keep up friendly relationships with other intermediaries," says Mr Takahashi.

Already Dai-Ichi has a joint venture, established five years ago, with Mercury Asset Management in London, which provides the insurance company with fund management. The next step, hints Mr Takahashi, could be the outright purchase of a US or UK investment management firm, but that is far from decided.

William Dawkins

Post Office tax blow

Continued from page 3

ate aim of scrapping the system is to tackle a notorious form of tax evasion. The practice of opening illicit multiple accounts is widespread. There are an estimated 300m tax-free deposits, two and a half times the country's 120m population.

Equally important, the move is part of the Government's campaign to stimulate the domestic economy, the aim being to persuade a public whose savings rate is among the highest in the world to change its thrifty habits and spend more.

Not surprisingly, the move, supported by the finance ministry, was fought furiously in its early stages by the MPT, which succeeded in delaying the abolition of tax relief considerably since it was tabled two years ago. Now MPT officials have little choice but to accept the change with stoicism.

"We have to seek new ways of packaging our products more attractively. We also have to make better use of our network of 23,000 branches. That is one asset which competitors cannot build up easily," says Mr Takeshi Onodera, deputy manager for planning and research in the MPT.

"We accept that the post office, like the private sector, should be subject to fierce competition. But of course we shall do our utmost not to allow a decrease in our share of the savings market," he adds.

Yet nobody is pretending that next month's change is going to be anything other than a severe blow to the PSB's dominance. Until the change, interest was allowed tax-free on maruyu deposits of up to Y3m.

Now, savings income is to be taxed at a flat 20 per cent, though tax exemption will continue to be allowed for people aged over 65 years, single parents, or the handicapped. Between them, those exempt categories represent Y50 trillion, or just over 17 per cent of tax free deposits. Tax exemption will also be allowed for pension programmes and house purchase savings.

The PSB has just launched the details – along with private sector life insurance companies – of the tax exempt life contracts it will be offering after April 1 for home purchase. The scheme allows policyholders to take profits free of tax if the proceeds of the life contract – between five and 10 years – are used to buy a house.

Other moves to sweeten the pill for the PSB include new powers to sell government bonds and securities over the counter. It can also accept these as loan guarantees. "Here our extensive network of post office should enable us to offer lower commissions," says the MPT's Mr Onodera.

Private financial institutions, however, doubt whether all this will be enough to stop a flight of capital away from the PSB. Its tax-exempt deposits have already been losing market share, down from 58 per cent of personal savings between 1981 and 1984 to just short of 56 per cent in 1986, according to government estimates.

Japan's low interest rates, currently just 3.5 per cent on short term deposits, have driven many savers to switch out of deposits into better performing vehicles, like higher yielding insurance policies. The latter saw their funds grow from 15.6 per cent of household assets to 17.4 per cent between 1981 and 1987. Savings-linked insurance providers are clearly prime candidates to benefit from the abolition of tax exempt deposits.

Another area highly tipped to benefit from the scrapping of the maruyu system is the money market certificate (MMC), which provides a guaranteed yield and is offered by most banks and financial institutions. The flow of cash into MMCs has already started, with the total standing at the end of last year at Y16.7 trillion, nearly twice the December 1986 level.

MMCs' growth potential is limited by the fact that a minimum legal deposit of Y10m keeps them out of the reach of many private savers, but the limit is expected to come down to Y6m to Y7m in the autumn.

Securities dealers are certainly in the running to take former maruyu business away from the PSB, since individuals effectively pay no capital gains tax in Japan. The big uncertainty is the extent to which small investors will be deterred by the events since last October's stock market crash.

"My feeling is that it is highly unlikely that a substantial percentage of low-yield, low-risk investments will flow into high risk securities, either directly or through funds," says Warburg's Mr Smithers.

Certainly, investment trusts appear on the surface to have experienced a small boom, up from Y17 trillion in 1985 to an estimated Y36.6 trillion, representing 5 per cent of the nation's savings, last year. Yet they have responded to the crash by cutting sharply the proportion of their funds invested in equities.

On average, just short of 28 per cent of the investment funds' portfolios was invested in shares in the wake of the October crash. In short, says Mr Smithers: "The banks and security houses are fearful that providers of life insurance and endowment policies will be the main beneficiaries."

However, the signs are that the PSB has not yet had its full dose of reform. Its deposits are still exempt from stamp duty, and benefit from effectively free government guarantees. Both of these privileges are under scrutiny by the finance ministry as it prepares its plans to free interest rates on small deposits.

This cannot be done, say officials, unless the PSB's remaining privileges are dismantled first.

William Dawkins

Capital flows: a sensitive issue in US election year

Economies' perverse relationship

ASSURING A large and smooth flow of capital from Japan to the US has become one of the most delicate financial issues of the late 1980s. It has also become a very public issue.

Every month, when Japan's balance of payments figures are scrutinised, attention is focused as least as much on the capital flow figures as on the latest movements in exports and imports. And the quarterly auction of treasury bonds by the US Federal Reserve, which used to be of interest only to US bond market specialists, has become a major international news event, often accompanied with a build up of tension and rumour in advance.

This heightened focus on Japan's capital flows is due mainly to the huge budget deficits incurred by the US Government in the last few years, and the big role being played by Japanese investors in financing them.

Indeed, as many economists have observed, the US and Japanese economies have become complementary in a perverse sort of way. Japan, through its financing of the US budget deficit, also provides the US with the foreign exchange with which to continue to buy vast quantities of Japanese goods.

There must be a limit to the US ability to go on financing its deficits

The problem with this sort of complementarity is that there must be a limit to the US ability to go on financing its huge budget and trade deficits and, as the accumulated negative balance grows, the question becomes more acute.

Meanwhile, the question of the relative power of debtor and creditor over each other is unusually delicate in this case. The sensitivity of the situation first came to light in the autumn of 1985 when the Bank of Japan, which was then trying to strengthen the yen in the wake of the Plaza Agreement, thought the way to do it was to discourage Japanese institutional investors from buying dollar bonds.

It pushed up short-term interest rates so the gap between US and Japanese interest rates would narrow. The flow of Japanese funds to the US slowed to a trickle and the yen duly proceeded to strengthen; but the move also put upward pressure on US interest rates, causing the US authorities to yelp, so the Bank of Japan soon changed course.

Japan's financial deficit, which had grown nearly fivefold from a modest Y1,774.8bn in 1982 to Y8,350.4bn in 1984, rose 38 per cent to Y11,518bn in 1985. In 1986, the forces at work changed drastically, as the Japanese authorities gradually became more concerned about the extent to which the dollar was falling.

The Bank of Japan made four successive cuts in its discount rate, hoping to stem the fall by encouraging demand by Japanese investors for dollar securities. That policy, together with the rising trend of the US bond market, was enough to ensure a rising and uneventful flow throughout the year.

It may seem surprising that Japanese investors were not concerned about their foreign exchange losses on their dollar investments at that time. However, the rising trend in the US bond market and the consistently higher yields there, compared with those available in the Japanese market, meant that even on a short term view the Japanese investor was not losing much, if anything, on US treasuries.

Moreover, most of the Japanese investors were pension funds and life insurance companies, and they planned to hold the bonds for 20 years, so were not too concerned about short-term foreign exchange losses. However, by the end of 1986, Japanese fund managers were beginning to get upset about the impact of the dollar's decline on their balance sheets.

For example, the seven leading life insurance companies ended up making provisions totalling Y600bn ($4.6bn) for foreign exchange losses in the fiscal year to March 31, 1987. They were also alarmed by the absence of any sign that the dollar would soon stop its downward trend or that the US authorities cared. This led to a rise in tension in the financial markets in the run-up to the February US treasury bond auction a year ago. The dollar had tumbled in January, and Japanese institutional investors were threatening to steer clear of the auction.

However, in the week before the auction, central banks intervened heavily to support the dollar, and the Bank of Japan hinted that it would soon lower its discount rate. Also, two Japanese securities companies, Nomura and Daiwa, had just been accredited as primary dealers to the Federal Reserve, so they had an interest in making the auction a success.

Institutional investors remained suspicious that this was all window-dressing, and their suspicions were confirmed in the spring when the US trade deficit showed no sign of declining and the dollar plunged anew. By late summer, they had become completely disenchanted and virtually stopped buying US securities.

Net purchases of US bonds by Japanese residents plunged from an average of nearly $8bn a month in the first eight months of the year to only $1.2bn in September, and they have remained at a low level ever since. In their place, the Bank of Japan and other central banks have become the main suppliers of funds for the US deficit through their intervention in foreign exchange markets in support of the dollar.

Many economists have become optimistic about US trends

The Bank of Japan's reserves grew last year by $37bn. But that official support has been accompanied by more pressure on the US authorities to take action to defend the dollar. Following the stock market crash last October, which has been attributed in part to the perilous state of US finances, the US Government announced a package of measures to cut its budget deficits over the next two years. That did not stop the fall of the dollar, and so by early January, concern was growing afresh about the February US treasury bond auction.

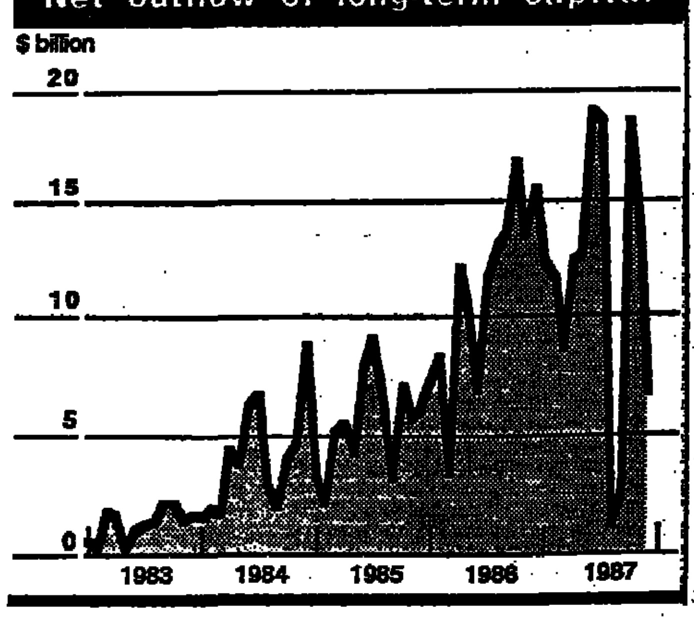
However, once again, a combination of intervention, rumours of official Japanese purchases of US treasuries and new commitments by US Federal Reserve to support the dollar appeared to do the trick. Whether the recent stability of the dollar and the declining trend of US trade deficits will continue remains to be seen.

Many Japanese economists have become quite optimistic in recent weeks about US economic trends, but institutional investors will probably want to see a few months of stability before venturing back into the US bond market in any volume.

It is also likely that the Japanese authorities will want to do what they can to head off another crisis in capital flows in this, an election year in the US. Japan's image in the US is at a very low point because of the huge trade imbalance between the two countries. The Japanese will not want to be seen as the people who also force the US to accept humiliating conditions for maintaining the flow of funds to finance the deficit.

Ian Rodger

Net outflow of long-term capital



Government bonds

No game for faint hearts

IT IS HARD to believe now that the Japanese government bond market was, only a few years ago, regarded as one of the most stable in the world.

These days, the world's second-largest government bond market is by far the most volatile and trading in it is certainly not for the faint-hearted.

Even those who might be expected to know what they are doing often get burned. In September, the country's largest securities house, Nomura, lost $250m as bond prices collapsed. For the year, it was able to turn in respectable bond trading profits of about $600m, according to officials at the firm, but other securities houses were unable to cover the losses made in the month during the rest of the year.

Part of the problem of volatility stems from the extraordinary concentration of daily market activity in one benchmark issue. The benchmark is established by market consensus from 10-year bonds with a sizeable tradeable float and a coupon close to the current yield.

On a busy day, the equivalent of the entire stock of the benchmark can change hands three or four times. In 1987, the yield of the benchmark swung from 2.55 per cent on May 14 (when three-month certificate of deposit rates were at 3.85 per cent) to 6.4 per cent on October 5.

Its benchmark status makes it the focus of most of the speculative funds in the longer-term markets, and yields on these issues are occasionally more than half a percentage point below similar issues without benchmark status.

Nobody seems to be able to come up with a complete explanation of why so much trading is concentrated in one issue. However, once a pattern of one highly liquid bond and an array of illiquid bonds has been established, it becomes self-reinforcing.

The following factors all seem to have played a part, however:

■ A segmentation between holders of government bonds. Institutions, such as insurance companies, tend to buy and hold the higher-yield issues, reducing the volume of non-benchmark bonds available to trade. The securities firms and city banks tend to be active, short-term holders of bonds.

■ Restrictions on short selling by dealers, which increases their preference for the most liquid issues.

■ The limited array of high quality assets in which to place liquidity and the relative undeveloped state of the shorter-term markets, and the consequent tendency to use the bond market as a short-term park for funds.

"On the investment side, we still need to develop a bill, note or paper market as an alternative to deposit-type assets. Because of a lack of appropriate instruments for investment, the bond market is used as a substitute for short-term investment. We don't think this is a very healthy development," says Mr Takeshi Ohta, deputy governor for international relations at the Bank of Japan.

■ The long period before settlement, which has made the benchmark a particularly suitable instrument for speculation. The effect of this has, however, been ameliorated by the reduction in the settlement period. Settlement now takes place every five days, compared with the 20-day period which applied before last May.

While nobody expects the market to regain its steadiness of the early years of this decade, there are a number of factors which suggest that the volatility of the benchmark may well decline in the future.

Mr Masahiro Dozen, senior managing director of Daiwa Securities, says that the introduction of the shorter settlement period has already led "to a cooling of the benchmark effect."

Indeed, Bank of Japan officials says that it is likely that this settlement period will be reduced further in the future.

While the actual failure rate for trades in the market has been small, the central bank is clearly concerned about the payment risk entailed in the high turnover in the benchmark and a long settlement period.

Furthermore, arbitrage is likely to increase in importance as the concept gains wider understanding here and this should gradually reduce the benchmark effect. Big anomalies persist both within the cash market and between the cash and futures markets. Cash-futures arbitrage has been a profitable business for firms such as Salomon Brothers.

The big losses of last year have also introduced an element of caution into the minds of speculators, and while this is in their minds, they seem less likely to push long-term bond yields so far below short-term rates as they did last May. Researchers at Salomon have established a link between the volatility of the government bond market and uncertainty about the yen-dollar foreign exchange rate.

Put simply, it suggests that when worries increase about a dollar decline against the yen, the volatility of the Japanese bond market increases. This is because Japanese institutions hold back from investment in dollar assets and place the funds instead into the short-term markets, pushing down rates, and into the domestic government bond market.

So, if as some believe, the dollar is now close to its lows against the yen, the likelihood of volatility in the Japanese government bond market is thus reduced.

Yet several factors spell great uncertainty this year for the market. It is true that Japanese financial institutions remain flush with cash, and that the level of redemptions and interest payments in the market is now exceeding the amount of new issues. Daiwa estimates some Y4.5 trillion will be injected into the market in this way in the year starting in April.

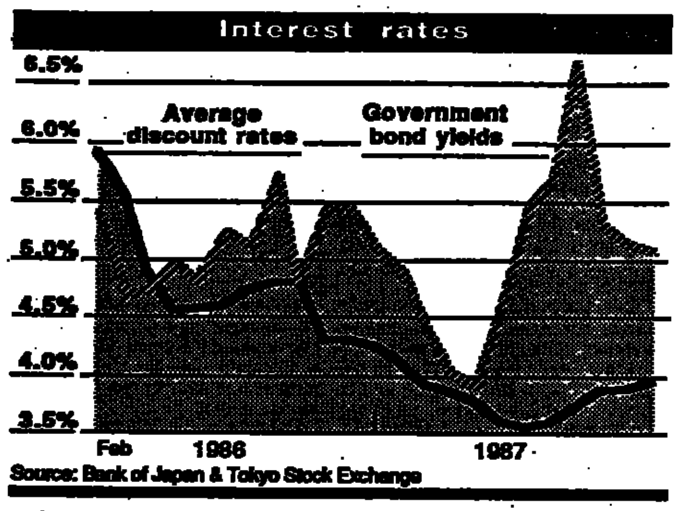
That said, many investors are aware that interest rates across the economy have already touched post-war lows. It is arguable that the UK in 1895 and the US in 1945 – countries also at the peak of their economic power – enjoyed lower interest rates than those now prevailing in Japan. But the scope for further declines is clearly limited.

Foreign investors seem unlikely to help out much. In contrast with their performance in the stock market – where they have been persistent sellers as share prices and the yen moved to unprecedented highs – foreigners' recent experience in the Japanese bond market has been good.

Foreigners' appetite for Japanese government bonds will be reduced by the tougher policing being promised by the Ministry of Finance on its withholding tax regulations for the new fiscal year starting in April. Indeed, overseas holders were again net sellers of Japanese bonds in December. Previously, many foreign investors have avoided the tax, levied at 20 per cent, by using Japanese firms, as nominal holders of the bonds and conduits for the coupon payments. This will not be allowed in future, and the Ministry is expected to keep a close eye on attempts to avoid tax through coupon washing.

Stephen Fidler

Interest rates



Source: Bank of Japan & Tokyo Stock Exchange

The stock market

Not exactly a crash

THERE IS an air of quiet satisfaction in Tokyo over the performance of the Japanese stock market. Widely viewed before October as the market most likely to trigger the next world share price crash, it has in fact outperformed almost all the world's share markets.

During the tense days of October, a combination of factors seems to have offered support, including "circuit breaker" mechanisms such as the limits on daily share price movements.

In contrast to London and New York, where there is an assumed obligation to make a market in all circumstances, Tokyo is a "best-efforts" market. This reduced the potential for a destabilising overhang of stock in the hands of trading firms in Tokyo, which in any case had a bigger cushion of capital with which to handle selling than their counterparts abroad.

Tokyo also lacks computer trading systems and an active stock index futures market, both cited as exaggerating the price swings in New York.

In the slightly longer term, cultural factors appeared to come into play. Much remains of the system of government guidance on which the post-war economy was built, allowing the Ministry of Finance to play a behind-the-scenes role to calm the market in meetings with both big securities firms and institutional investors.

The *quid pro quo* of their co-operation appears to have been a relaxation of certain rules that might have put the market under pressure this year.

Perhaps most important, though, was the stability of the holdings of a large part of the equity market. The well-known cross-holdings of shares by companies held steady, while the main Japanese institutions – 27 of them dominate the market – also stood fast. As a result, the Ministry of Finance plans to take no action following the events of October. It believes that what happened in Tokyo could not be defined as a crash.

A good sign, though, has been the return of foreigners to the market in the early part of the year. The huge sales from abroad of Japanese stocks after Black Monday – foreigners liquidated close to $14bn in holdings in late October alone – was the culmination of almost two years of net selling by foreigners.

Many observers think their holdings, which have dropped to about 2 per cent of the market's capitalisation from a peak of more than 8 per cent, cannot drop much lower. Tokyo, after all, now accounts for 40 per cent of world market capitalisation.

It is still true, however, that foreigners remain highly suspicious of the huge price-to-earnings multiples at which Japanese shares trade, notwithstanding the explanations for why this is so.

This is why, starting with the US pension funds which began to commit money into Japan in December, foreigners seem to have been focusing on the shares of smaller growth companies in Tokyo's second section, which trade on significantly lower multiples than the very liquid, big capitalisation stocks. Many do not contemplate quick profits but regard them as investments with at least a two or three-year time horizon.

The low market turnover, says Mr Ron Napier, Japanese equity research analyst from Salomon Brothers Asia, is because there has been no major commitment of funds yet to the market by the Japanese institutions.

Yet they cannot sit on their hands for ever, and the money flowing into them has to go somewhere. Mr Tomohiro Kawase, who is responsible for finance and investment planning for Nippon Life, now the world's largest life insurance company, says: "Basically, we have a domestic overliquidity problem."

The outlook for Japanese individual investors is regarded as positive, though they have not followed through with the net buying made around the time of the crash. Securities firms in Japan are certainly hoping for the stock market to derive some benefit from the abolition of the much-abused maruyu system of tax-breaks for small savers this year, although the rumblings about the imposition of a capital gains tax is unlikely to be helpful.

Longer term, the market is undergoing significant structural changes, of which this year's launching of a stock index futures market in Tokyo is just one example.

New techniques of portfolio management are sweeping into Japan, as Japanese firms adopt the practices first brought to Tokyo by US and British fund management firms. More disclosure of performance suggests greater competition, and a shorter-term investment orientation than has been usual for Japanese institutions.

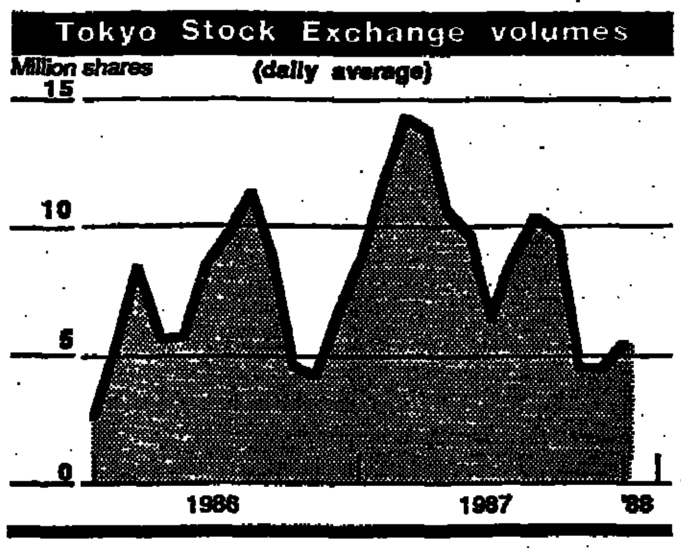
Most significantly, perhaps, there are signs that the cross equity holdings of Japanese companies - most made in the early 1970s to thwart the possibility of foreign takeovers - are gradually beginning to break up. These strategic holdings are estimated to account for 60 per cent or more of Tokyo's capitalisation.

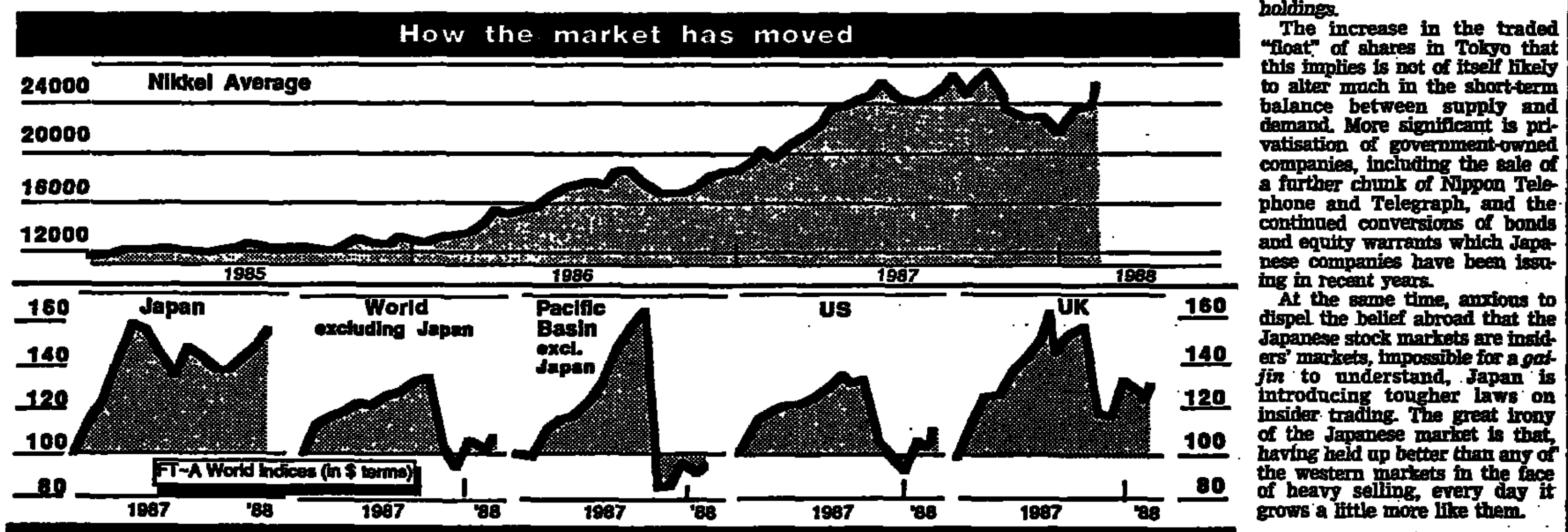
As Japanese companies become more aware of the importance of asset management, some are shifting their shareholdings in other companies into short-term investment portfolios. The near-record prices of most Japanese shares have proved tempting for some firms, which have already started to sell their holdings.

The increase in the traded "float" of shares in Tokyo that this implies is not of itself likely to alter much in the short-term balance between supply and demand. More significant is privatisation of government-owned companies, including the sale of a further chunk of Nippon Telephone and Telegraph, and the continued conversions of bonds and equity warrants which Japanese companies have been issuing in recent years.

At the same time, anxious to dispel the belief abroad that the Japanese stock markets are insiders' markets, impossible for a *gaijin* to understand, Japan is introducing tougher laws on insider trading. The great irony of the Japanese market is that, having held up better than any of the western markets in the face of heavy selling, every day it grows a little more like them.

Stephen Fidler





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Forex trading soars

TOKYO FOREIGN exchange market is expanding so rapidly that banks are running short of currency traders.

The yen's rise against the US dollar, the expansion of Japanese *portfolio investment* overseas, and the liberalisation of the Tokyo financial markets, have all played their part in expanding currency trading in Japan.

Currency brokers, who account for 10 to 20 per cent of the total market, handled daily volume of $5.4bn in the yen-dollar spot market last year – 50 per cent more than 1986. In yen-dollar swaps volume rose by 44 per cent to $9.7bn a day.

Meanwhile, brokers' *trading in* the spot market in other currencies was 56 per cent up at $4.0bn.

Statistics for the much larger inter-bank market are not published. But Mr Koichiro Kitade, country treasurer of Citibank, the US bank, says that, *in yen-dollar business*, Tokyo is the largest trading centre in the world.

The last published comparison in 1986, put Tokyo in third place in terms of overall daily turnover, with $48bn, against $60bn for New York and $90 for London. Japanese traders believe that Tokyo has almost certainly overtaken New York in size.

With the expansion has come an increase in participants in the market. The days of the 1970s, when Bank of Tokyo, Japan's pre-eminent foreign exchange *bank, dominated the market* are long gone. About 10 banks now have large shares in the market, including several foreign companies. Indeed, foreign exchange is one of the few areas of the Tokyo financial markets where foreign companies have been able to establish consistently profitable operations.

Bankers say it is as a result difficult to recruit experienced staff. A senior trader at the Bank of Tokyo says that about two-thirds of the turnover is accounted for by inter-bank deals, with the rest coming from investing *institutions* and industrial corporations.

The weakness of Tokyo lies in its natural dependence on one currency, *in contrast* to London and New York, or even Hong Kong and Singapore.

Mr Kitade believes that the *development* of Tokyo as mature foreign exchange centre will depend on the development of trading in non-yen currencies.

Stefan Wagstyl

Short-term markets

The strain is showing

DEREGULATION HAS created a *hybrid* out of the Japanese short-term financial markets.

While some interest rates remain under the direct control of the Bank of Japan, others are determined by the markets, setting up potential strains which can only be solved by further deregulation. This will require the development of new techniques of monetary control and cash management by the authorities, and an appreciation of new risks by the private sector, particularly the banks.

For the banks, the next stage of the process takes place next month. The floor on deregulated wholesale time deposits will be lowered to Y50m from Y100m, while the scope to issue certificates of deposit will be widened out to two years and down to two weeks from the current one-month to one-year band. Further deregulation of small denomination time deposits is also expected soon.

Mr Tadashi Fujita, deputy general manager of the domestic money market department of Sumitomo Bank, says that from the point of view of banks' funding, liberalisation will almost be completed next year.

But, as he says, this will bring new risks for the banks. "It means that interest rates of short-term instruments are likely to fluctuate much more than now, which means higher risks on *interest rates as well as for* liquidity."

There is a potential for strains, too, because the deregulation of the assets side of banks' balance sheets is moving ahead more slowly. While the rates at which banks borrow are being freed, many of their lending rates are still fixed. There is, therefore, says Mr Fujita, "a need for us to have a new prime rate system."

Change in other areas too has been slower than many, particularly foreign banks and their governments, would like. The Bank of Japan, for example, still seems wedded to the principle of collateralisation in the call money or interbank market.

Because of a shortage of suitable collateral, the market has shrunk in importance compared with *other funding markets*. But foreign banks say they are victims of a vicious circle which locks them out of lending to Japanese customers. The collateralised market is the cheapest source of funds for banks, yet foreign banks cannot participate in it because they lack the collateral. Yet they cannot get the collateral unless they are making loans to Japanese customers.

Mr Takeshi Ohta, deputy governor for international relations at the Bank of Japan, says that there are misunderstandings about the rigidity of the interbank market, which is rather small anyway compared to other funding markets. Any disadvantage to foreign banks is, he says, offset by other advantages, such as low reserve requirements for *on the inflow of capital* and their access to the discount window.

Nevertheless, the collateralisation principle has inhibited the establishment of a true interbank market inside Japan.

Critics say the Bank is reticent to abandon it partly because the growth of an uncollateralised market would encourage a credit gradation among Japanese banks, which could cause problems for banks of a lower credit standing.

More important, perhaps, the Bank is also said to be reluctant to give up its use of the market to guide monetary conditions. A free interbank market would force it to use other instruments to fine tune monetary policy, and allow the creation of liquidity which it is currently ill-equipped to control.

The problem of using other methods of monetary control is magnified by the lack of well developed short-term paper markets, used by central banks in most developed countries as the lever on bank reserves.

The shortage of such short-term investment – as opposed to funding – instruments has also been blamed for the slow progress of the internationalisation of the yen and is the main reason for the pressure from the United States to develop them. Apart from bank deposits, there is little choice for an investor who wants short-term yen assets. Mr Ohta concedes: "The lack of bills and other paper in the short-term money market does prevent the yen from being more widely used."

The Bank favours the development of a *Treasury bill market* as a form of short-term government funding. Yet the Ministry of Finance, which at present uses its bills for cash management rather than funding purposes, has not yet been persuaded to give up the convenience of the present system. It currently *issues bills at below the discount* rate, the only buyer of which is the Bank of Japan. There is thus no regular issuance and when the central bank onsells these bills, it must take a loss in doing so.

Steps have been taken, though, toward the creation of other short-term markets. That in bankers' acceptances, launched in 1985, has so far proved a failure. Borrowers can still obtain finance more cheaply from banks and a stamp duty makes the market all but unworkable.

Despite taxation problems, the yen commercial paper market, given the go-ahead in November, seems to have got off to a much stronger start.

However, both the Euroyen and Samurai commercial paper markets have begun more slowly, partly because foreign exchange swaps have not been attractive to borrowers. Only two borrowers, Dow Chemical and Sears Roebuck, have announced their intention to tap the samurai market, launched in January.

Outstanding paper in the domestic market though has surged to Y2 trillion (million million), although this figure is widely expected to fall before it expands again. The market has benefitted initially from the Japanese habit of go-shugi – celebratory trades – and very aggressive *marketing by both banks and* securities firms.

As a result, companies have been able to borrow in the commercial paper market at 3.9 per cent and put it in the certificate of deposit market at 4.3 per cent. Such low yields of course mean that few investors other than the *dealers involved can be expected* to buy the paper. Yields are expected to rise to more realistic levels in coming months however, despite the fact that the product is of strategic importance to both banks and securities firms.

For the banks, it is another *chance to prove themselves in* the securities business; for securities firms an opportunity to muscle in on the corporate customers of the City banks.

Stephen Fidler

Domestic corporate bonds: new issue procedures are still too cumbersome and expensive for borrowers

Deregulation aims to bring the exiled market home

IT IS a curious fact that, while Japan is the pre-eminent capital exporter in the world, its foreign bond market has been shrinking, and Japanese companies continue to raise most of their bond financings overseas.

Outstanding Samurai bonds – the name given to issues made in yen by foreign borrowers in the Japanese market – actually shrank in 1987.

Some Y350bn of bonds were taken out of the market in the year to August, and new issues by foreigners in the Japanese market during 1987 (including so-called Shogun issues bought in foreign currencies) were estimated to be down about 40 per cent in yen terms.

The old saying about the Japanese corporate bond market – that "it does exist . . . in Europe" – is as true as ever.

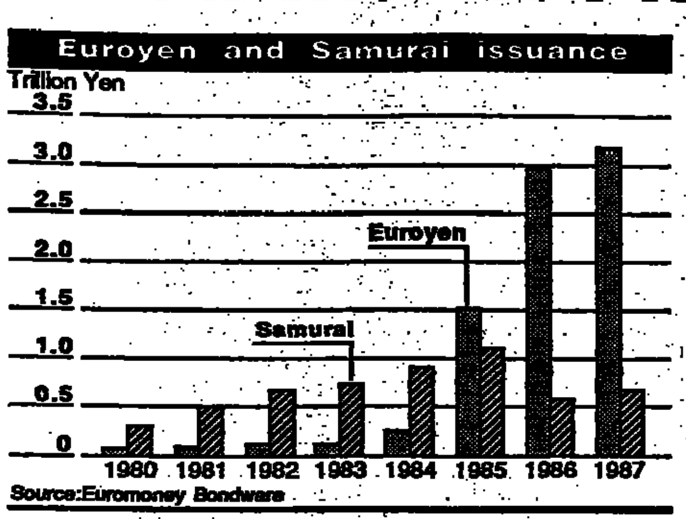
In a recent report on the matter, Daiwa Securities comments: "Declining interest rates and the emergence of a more versatile Euroyen market have led to many calls in the Samurai market and a decline in new issues, despite measures to improve the market's competitiveness against Euroyen."

The problem for the Tokyo market has several dimensions. New issue procedures are still too cumbersome and expensive for borrowers, while potential investors are put off by the lack of a secondary market in the instruments. A conflict of interest between banks and securities houses is complicating the search for solutions, while taxation questions hinder the market's further development.

So far steps taken by Japan's Ministry of Finance to correct this have met with little success. Officials are not motivated by a desire to destroy the Euroyen market – important in their stated objective of internationalising the yen – but to create an effective mother market for the currency inside Japan. Over such a market, they would, of course, enjoy greater control than they now claim over the external market.

The measures have included a relaxation of rules on private placements. Key investors, such as the Exim Bank and postal life insurance, have since November been able to buy all of a privately-placed foreign issues, instead of the 20 per cent to which they were previously limited.

But, as is often the case in Tokyo, attempts at liberalising the market have been beleaguered by the running disputes between banks and securities firms.



Source: Euromoney Bondware

Attempts to liberalise the market have been beleaguered by disputes

So, for example, while the securities houses have called for the abolition of a rule which says most private Japanese issuers of domestic bonds require bank support, the banks naturally say the arrangement is necessary.

Banks – involved in the private placement market but not the public market – would like to see an easing of a two-year embargo on the sale of private offerings and of the provision that, when they do sell the bonds, they split them up. Brokers oppose this, and support the rule that limits private placements by foreign borrowers to one-third of public Samurai offerings.

In the public bond market, mandates for corporate bonds were simply rotated among securities firms until the Ministry opened up competition for mandates in February 1987.

While this has had little effect on issuing volumes, there are hopes that the next important liberalisation will have more impact. From around October, a system of shelf registration, along the lines of procedures used to speed up the issuing of bonds in the US, is scheduled for introduction. This is being regarded as a key move in the attempt to bring the bond market home to Japan, and as such as a significant development by both domestic and foreign securities firms alike.

This liberalisation is not expected to result in a bonanza for foreign firms, however, since the domestic houses seem likely to lock up most of the business for themselves.

Japanese securities houses have been highly proprietorial about management positions in the issuance of Japanese bonds, and have excluded foreign firms from all but lowly underwriting positions. That situation "will only change if they realise it will hurt them elsewhere", said the head of one foreign securities operation in Tokyo.

Some attempts have also been made to improve the secondary market. A so-called Daimyo bond, issued by the World Bank into the Japanese market in May, was cleared through the big European clearing houses, Euro-clear and Cedel, and the ministry is said to be studying the possibility of broadening the number of borrowers authorised to make such issues.

Mr Masahiro Dozen, senior managing director at Daiwa, is among those who believe that a huge step towards bringing the markets back to Tokyo would be made if the ministry allowed Japanese residents to bring foreign currency issues to the Japanese market. This would allow the patriation of the Japanese equity warrants market.

Some $20.3bn of bonds with equity warrants attached were issued in the Euromarket by Japanese companies last year, out of total dollar new issue volume of $46.03bn. (Euroyen issues amounted to $22.33bn). Banks would oppose such a move, however, since they can underwrite such issues in Europe but not in Japan.

Even without this, and even if straight bond issuance in the domestic market continues at a limited pace, analysts expect the domestic and external markets in convertible bonds for Japanese companies to continue active. Provided the stock market holds up, banks seeking to improve their capital base in line with new internationally-accepted capital adequacy proposals are expected to provide a constant source of supply in coming years.

Arguably, the liberalisation of the domestic market is taking place at an opportune time. The conflict of the private sector's fund raising needs with that of the Government has ceased to be an issue, since the latter can support its deficit entirely through internal financing.

Last year and this, net redemptions and interest payments in the government bond market will exceed the amount raised through new issues. In the fiscal year starting next month, some Y4.5 trillion in surplus funds will be injected into the market in this way.

Stephen Fidler

Futures and options

The barrier will remain

THE LAUNCH of a comprehensive market in financial futures and options later this year is likely to intensify competition between Japanese banks and securities companies.

Financial companies are already busy preparing to trade the new instruments, while the Ministry of Finance puts the finishing touches to proposals due to be put before the Diet (parliament) in the next few months.

The ministry falls well short of proposing a fully-liberalised market in which companies have equal access to the new instruments. Instead, the plans reflect the ministry's willingness to respect the existing barriers between banks and securities companies – each fought bitterly to defend its vested interests.

As a result, there will be restrictions on Japanese banks' and securities companies' using the new markets, although these rules will not apply to foreign banks and securities companies in Tokyo.

Nevertheless, the proposals will enable all financial companies in Tokyo active in bonds, stocks, money and currency markets greatly to increase the range of instruments they trade.

Futures are not new to Tokyo. The Tokyo Stock Exchange's market in Japanese government bond futures, launched in 1985, is now the largest in the world – with a turnover last year of Y1,826 trillion (million million), double the 1986 total.

Meanwhile, the Osaka Stock Exchange has had a modest success with a highly-restricted 50-equity stock futures contract.

The ministry's proposals would allow stock exchanges to launch futures contracts in stock-index futures and in foreign government bonds, including US ones. Meanwhile, a new financial futures exchange would be created, trading futures and options in interest rates and currencies.

Banks would have unlimited access to the new financial futures exchange – both as brokers and on their own account. In addition, they will be able to trade government bond futures on the stock exchange, not only on their own account (as they do already) but as brokers.

Securities companies would be able to trade all stock exchange instruments, plus everything on the new financial futures exchange except spot currency options.

The last restriction reflects the banks' refusal to admit securities companies into the foreign exchange market. Katsutoshi Kaneda, a divisional deputy director at the Ministry of Finance's Securities Bureau, says that the October plunge in stock market prices has not affected the ministry's propsals.

"We believe in the economic function of futures and options [in improving the efficiency of markets]," he says. "We are looking to have a good relationship between the futures and the cash markets."

A key element of the Japanese market will be the fact that control of the futures exchange will be in the hands of banks and securities companies – and not of specialist futures brokers as in the US. Mr Yasuo Kanzaki, executive vice president of Nikko Securities, says this means futures will be managed responsibly, with a close eye on the position in the underlying markets.

Japanese officials hope the market will attract membership applications from foreign companies, including specialist Chicago-based futures brokers such as Refco and Cargill, two of the world's largest trading companies.

Meanwhile, Japanese companies will, in the next few months, be permitted to broke instruments traded on overseas exchanges to Japanese clients – except for cash options. They have been dealing in such instruments since last April, but on their own account only.

Moreover, in a similar liberalising move, companies will be permitted to trade foreign-quoted cash options on their own accounts only. The significance of this measure is that it will allow securities companies to trade foreign exchange cash options. By rolling over cash option positions, they will in effect be trading foreign exchange. If they are subsequently admitted to trading these instruments in Tokyo they would break into the heartland of bank-controlled territory – something the banks would oppose fiercely.

However, such a revision will not come for at least two years – since the ministry has said it will not review the new market before 1990.

Stefan Wagstyl

Foreign competitors, having got to the party, are having little fun

Distracted by the shake-out

THE CONCERNS of foreign financial institutions in Japan have shifted considerably in the last two years. Most of the regulatory obstacles which they claimed had long hobbled their efforts in the Tokyo market have been stripped away.

"From a regulatory perspective, there is nothing that we are kept out of that we want to be in," says Mr James Walsh, managing director of First Boston (Asia).

Having arrived at the party though, most are finding that they are not having much fun. Not only is a group of sumo wrestler types standing between them and the bar, but they have also realised that there are troubles at home.

The shake-out in the London and New York markets is already having an effect. US commercial banks have led the way in paring back staff, while a handful of the more than 40 foreign securities firms have already reduced their presence or pulled out.

It is not expected to end there. "No business can be run here in isolation and there is no doubt that some foreign firms here are going to have the rug pulled out from under them," says Mr Michael Connors, general manager of Barclays de Zoete Wedd Securities (Japan).

"I can honestly say that we feel less competitive pressure from foreign securities houses here than we did a year ago," says Mr Deryck Maughan, chairman of Salomon Brothers Asia, the largest foreign securities operation in Japan.

Doing business in Tokyo is not cheap. High rents, expensive expatriate packages and local salaries look colossal when converted from the stratospheric yen to more earthbound currencies.

Membership of the Tokyo Stock Exchange alone will cost the 16 foreign firms which will join this year at least Y1bn each.

There are, of course, still some regulatory gripes among the foreign firms, although they have to concede that in some areas they have greater freedom of operation than their Japanese competitors. Foreign banks, for example, are permitted to own securities subsidiaries in Tokyo, something forbidden both to the indigenous banks and the US banks in their home market.

Many would like to see a more generous allocation in the government bond syndicate. Even this, though, is becoming less contentious – 20 per cent of the key 10-year issues are already being auctioned, and this is expected to be increased to 30 per cent.

Securities firms are still not allowed to deal in foreign exchange, which is one business at least that many foreign banks have found profitable since they were allowed into the Tokyo foreign exchange market more than two years ago. However, this is a restriction which also applies to Japanese securities firms.

Another widespread complaint from the foreign securities houses is that they are never allowed any significant management positions in the domestic new issues market.

The Ministry of Finance argues that this is not a matter of regulation, but of market conduct. It is true too that many European domestic markets – such as Switzerland – still restrict foreign participation and the Japanese firms themselves do not forget their early struggles in the US market.

The problems faced by the commercial banks are in some respects similar to those con-

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Japanese financial companies abroad: FT writers assess their current performance in New York and London

Life companies gather know-how

WALKING THROUGH the dealing rooms of Nikko Securities in New York is like reliving a part of Wall Street's past.

In charge of the company's equity business is John Conlon, who had been with E F Hutton for 10 years and joined the Japanese company last spring. Nikko's computers analyst is Mike Geran, recently arrived from E F Hutton. Its oil analyst is Sal Ilacqua, ex-L F Rothschild.

It seems that the vulnerabilities of Wall Street's indigenous companies can sometimes be a bonus for Japanese securities houses seeking to expand their presence in New York.

After two years or so of rapid and aggressive expansion, Japan's Big Four securities *houses - Nomura, Daiwa, Nikko* and Yamaichi - are already well established. Their global expansion has been one of the major stories of the 1980s.

A newer trend *has* been the entry of Japan's enormous life assurance companies into the securities industry. Two out of the top 10 Japanese acquisitions in the US last year were Nippon Life Assurance's purchase of a $538m minority stake in Shearson Lehman Brothers and the $300m minority stake in Paine Webber taken by Yasuda Mutual Life Insurance Co.

Those deals were evidence of the Japanese commitment to US securities markets. There has been no apparent erosion of the desire to build up a presence in the US securities industry because of the shock of October's *share price collapse.* Indeed, Japanese life assurers were able to take advantage of a perception that US securities houses would need to bolster their capital in the brave new world after the crash.

Japanese insurance companies are barred from the securities *business at home.* The move into the US securities business, if only at arms length, represents an effort to build up know-how in anticipation of deregulation of their home market, according to Mr Toshio Mori, chairman of Nikko Securities Co. International Inc in New York.

Banking, too, is an attractive proposition. As US commercial banks lobby furiously in Washington for the repeal of Glass-Steagall, the Act which separates *banking and securities activities,* arguing in part that they need to expand their profit base to compete in the international arena with Japanese financial institutions, those very organisations continue to encroach on their patch.

Last month, a subsidiary of the Bank of Tokyo bought the Union Bank of Los Angeles, California's fifth-largest bank, from Standard Chartered Bank for $750m. The deal will create a bank with $15bn in assets and make the bank the second-largest *foreign-*owned banking company in the US. The largest is Marine Midland, owned by Hong Kong and Shanghai Banking Corp.

Another banking deal which ranked within the top 10 of Japanese acquisitions in 1987 was the purchase of a minority stake in BankAmerica Corp, worth $350m, by a group of Japanese banks and insurance companies.

Japanese real estate developers have already bought up substantial chunks of landmark buildings in New York – even the much loved Algonquin Hotel, made famous in the 1920s and 1930s as the regular *lunchtime* eating spot of alumni from New Yorker magazine, is now Japanese-owned.

The latest trend, which could dominate foreign takeover activity in the coming year, is an aggressive Japanese buying foray into American manufacturing *industry.*

Publically-reported Japanese acquisitions in the US jumped to a record $5.9bn during 1987, more than doubling the $2.7bn total in the *previous* year. *The combina*tion of a cheap dollar and the allure of the huge US domestic market lies behind this buying spree which most expect to continue unabated this year.

The most spectacular, and by far the largest deal last year, was Sony Corp's $2bn purchase of CBS Inc's record business last autumn. And *1988 got off* to a lively start with Bridgestone's purchase of 75 per cent of Firestone Tire and Rubber Co's tyre operations for $1bn.

This interest in corporate America provides the ingredients for a profitable shift in the US business focus of Japan's large securities firms towards mergers and acquisitions. This is, of course, a trend which has been seen in the strategies of US securities companies, looking for a fee-earning alternative to increasingly competitive, low margin business like municipal bonds and commercial paper.

Nikko's Mr Mori predicts much more aggressive Japanese takeover and merger activity in the US this year and expects his company as well as other Japanese securities houses to benefit.

He pointed out a number of reasons why the US is an attractive place for the Japanese to do business including the appreciation of the yen and the rising cost of labour in Japan which he said was equal to or even higher than labour costs in the US.

Yamaichi, too, is interested in expanding its corporate finance business. Mr Stanford Brainerd, senior executive vice president, said mergers and acquisitions will be a very attractive prospect for the next year or so. He noted that, unlike European companies which appeared to be interested in US acquisitions because they look cheap, the Japanese interest is more strategic. "Japanese firms want to be here as part of a global strategy," he said.

Another area for expansion is futures, increasingly central as a means of hedging Japanese holdings in dollar-denominated secu*rities. The major Japanese securi*ties houses are applying for booths on the floor of the Chicago Board of Trade.

After two years of extremely fast expansion in the traditional businesses of equity and bond trading, the accent now seems to be on consolidation and quality.

Despite the shock to confidence of the October crash, equities remain at the forefront of the *thinking of Japanese securities* houses. Mr Mori expects "massive investment" in US equities by the Japanese once confidence has been rebuilt (after perhaps three to six months) and as long as currency markets continue to stabilise. "Japanese institutional and individual investors will become the major force participating in the US market," he said.

In December, Nikko became the third of the Big Four to be authorised as a primary dealer in US government bonds. Yamaichi is still on the waiting list.

Janet Bush

Now for UK securities

LAST YEAR saw *the Japanese* rise to prominence in the London-based Eurobond market reach its apogee.

At the end of December, Nomura International, the London subsidiary of the largest securities firm, was ensconced in the number one slot in the Eurobond book-running league table, with 13.4 per cent of the market, about double that of its nearest rival, Credit Suisse First Boston.

The third, fourth, and fifth positions had all been claimed by the other three biggest securities houses: Daiwa, Nikko, and Yamaichi.

This year will see the Japanese houses beginning to have an impact on the UK domestic securities market – an area they have barely touched so far, but one where they are determined to build up a presence, albeit gradually.

The lead has been taken by Nomura. It is the only house to have started making markets in UK equities, an operation it began last August. But so far it quotes prices in just 11 stocks, *while its analysts cover eight sec*tors. This forms the nucleus of what is envisaged as a London-centred UK and European market-making and research operation, covering all the main sectors.

Nomura should also start making markets in gilts this year, having obtained notification from the Bank of England this month that it will obtain a licence to become a primary dealer.

Daiwa, too, applied for a licence last October, and is believed to have been slightly ahead of Nomura in putting together a team. However, its application is still under consideration.

It may seem paradoxical at first that the Japanese should be moving into these areas at a time when other houses have been *closing down or retrenching their* operations. Indeed, the Japanese will admit that the slump in volume after last October's stock market crash has led them to be more leisurely about their plans.

But the UK equity and government bond markets are still important to their global ambitions. It is in accordance with the Japanese long-term approach to business that they should be prepared to countenance little or no immediate return on capital invested in a new area, in order gradually to build up expertise.

The news that they were enter*ing these markets prompted some* UK houses to shake in their shoes. But the Japanese are keen to dispel fears that they intend to do to the UK domestic securities markets what they did to the car industry. They stress that their primary concern is to cater for the growing desire among their Japanese clients *for diversifica*tion out of yen and dollar instruments.

As far as Eurobonds are concerned, the Japanese are expected to continue to bestride the market in 1988. They have fully participated in the upturn in issuing activity seen at the begin*ning of the year.*

A key to their success is the continuing popularity of the equity warrants bond as an issuing vehicle for Japanese corporates (which swap the proceeds into yen at highly attractive rates). Though these issues disappeared between Black Monday and the end of 1987, they are now back in vogue among investors and regularly trade at premiums as high as 12 points above their issue prices.

The massive profits on these bonds are providing the Japanese securities houses with war chests, which they are apparently using to offer attractive issuing *terms to the most sought-after* sovereign and state-backed Eurobond market borrowers.

The merchant banking subsidiaries of the Japanese banks, too, have recently achieved a much higher profile in the Eurobond new issues business, notwithstanding the fact that domestic legislation prohibits them from lead-managing issues for Japanese companies. The most aggressive player has been IBJ International, which last year shot from 16th to 11th place in the book-runners league table, according to IDD Information Services.

For the banks, success in the *Eurobond business is seen as giv*ing them leverage when they press for the abolition of Article 65 - the Japanese equivalent of the US Glass-Steagall Act.

Similarly, the securities houses are using their London operations to gain expertise in foreign exchange trading, and add to their funding capacity. Both Daiwa and Nomura have established banks over the last 18 months.

The Japanese banks established a reputation, some would say a notoriety, for undercutting European and US competitors in the London-based syndicated loans market. However, along with their international counterparts, they have in recent years sought to boost margins and diversify into new types of lending.

In the background are last year's recommendations by the *Bank for International* Settlements, which moved to standardise bank regulation internationally. Whichever way they are used by the Japanese authorities, they are bound to force the banks to commit more capital to their lending operations.

Such pressure has led the *banks to look more closely* at the UK as a source of lending business, rather than simply using London as a basis from which to lend internationally. But, although they are well-established as lenders to UK local authorities, they are finding the UK corporate sector a difficult nut to crack.

This is not only because it requires new skills in credit analysis, but also because the UK banks exert a strong hold on UK *companies. However*, the banks are doggedly pressing on with the project. Fuji Bank's establishment of a representative office in Manchester last May, and Sumitomo's *Birmingham office, bear* testimony to this.

Sumitomo Bank has been the most aggressive in attacking the UK market. It operates a residential mortgage lending business, and has become increasingly active in property finance. Last May, for instance, it took part, along with Bank of Tokyo and Toyo Trust and Finance, in a £75m debt financing for Property Equity Fund, set up to provide finance to smaller developers.

In addition, the Japanese are participating in takeover finance. Industrial Bank of Japan, for instance, was part of the underwriting group for a £1.6bn financ*ing for Barker & Dobson in its* unsuccessful bid for Dee Corporation at the end of last year.

No Japanese institution has made the large-scale redundancies carried out by UK and US houses in the City recently. Yet they are not entirely untouched by the recession in London's financial markets. Even Nomura, which made £56.7m pretax profit last year, says it will delay deciding how many graduates to take on until the last possible minute this year.

Clare Pearson

Foreigners distracted by trouble at home

Continued from page 7

fronted by the securities firms, and in some respects different.

Foreign bankers cite three main areas where they are disadvantaged in competing with the domestic banks: funding, banking relationships and the constraints imposed by the need to satisfy shareholders at home.

The special commercial bank problem is that of funding. It has long been the contention of foreign banks that the requirement that most interbank loans are backed by collateral puts them at a disadvantage.

Foreign banks simply lack the assets to use as collateral in that market, and the uncollateralised funding alternatives, such as the Euroyen market, are more expensive, making it almost impossible to compete in pricing of loans.

Bankers agree that to operate effectively in Tokyo one must be perceived to have a long-term commitment to the place. This is important not only to customers, but also in the hiring of prospective Japanese employees.

Yet the focus of many publicly-held banks and securities firms, most particularly those from the United States, is on the short to medium term, often only 12 to 18 months. The consequence is policy which is often erratic.

Their Japanese competition is far less likely to retrench because of a short-term profit setback. Even with the introduction of new common capital adequacy proposals for banks worldwide, a significant shift in the strategy of the Japanese – to gain and hold market share – should not be expected any time soon.

The building of relationships with customers in Japan has proved particularly tough. In the words of one banker: "The Japanese like dealing with the Japanese and we have always had to try harder to score."

Japanese firms have shown themselves to be highly proprietorial about all their businesses – from domestic corporate bond syndication to the loans market.

Foreign banks have tended to be more innovative than the Japanese, but it has made little difference. "New structures or proposals that we take to Japanese customers are likely to be leaked to their prime Japanese banks, who then come up with similar ideas," says the head of the US bank.

"The Japanese do defend their patch vigorously, and it often goes further than what most of us would regard as Marquis of Queensberry rules," says Mr Maughan of *Salomon Brothers.*

Foreign firms' focus in the months ahead, though, will be on three things. They are already gearing up for stock exchange membership, which involves hiring experienced floor traders, and *readying themselves for the new* financial and stock index futures markets to be set up later this year in Tokyo.

The third element concerns the intention to bring back something of the Japanese bond market back to Tokyo from Europe. Efforts to do this include an expected introduction in October of US-style shelf registration procedures to speed up the long-winded issuance process.

For the longer-term, foreign houses here are contemplating the end in the next few years to Article 65, which enforces the distinction between commercial banking and the securities business. *If and when it falls*, the huge firepower of the Japanese banks will be trained on the securities markets, with all that implies for competitive pressure in an already competitive market.

Many firms have already clearly failed in their aim to be sitting at the table of the half-dozen or so "global players in the world's financial markets." And with its sky-high costs and tough domestic business environments, Tokyo looks like being the graveyard for the pretensions of many others.

Japan, the world's largest exporter of capital, remains a necessary bridgehead to fulfilling that global ambition. But only the big Japanese firms, backed by a powerful currency, high equity prices which give them immense leverage, and an apparently insatiable desire to grow, seem assured of a seat at that table.

Stephen Fidler